Spokane Employees' Retirement System

Annual Report

FOR THE YEAR ENDED
DECEMBER 31, 2008

Mt. Rainier
As seen from Home, WA
over Carr Inlet
Photography by Leo Griffin

Spokane Employees'
Retirement System

Comprehensive Annual Report

FOR THE YEAR ENDED DECEMBER 31, 2008

Sea Kayaking on Carr Inlet
Home, WA looking towards Fox Island and Mt. Rainier
Photography by Leo Griffin

Retirement Department
City Hall, Suite 604
808 W. Spokane Falls Blvd.
Spokane, WA 99201-3324
tel 509.625.6330
fax 509.625.6861

Introductory Section

Morning Light
Penrose Point State Park, WA
Photography by Leo Griffin

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Administrative Organization

BOARD OF ADMINISTRATION

Bill Todd (Chair)	Elected Employee	Field Engineer, Engineering Services
Michael F. Coster	Elected Employee	WWTP Operations Superintendent, Advanced Waste Water Treatment Plant
Steven J. Sather	Elected Employee	Field Engineer, Engineering Services
Nancy McLaughlin	Council Appointee	City of Spokane Council Member
Thomas E. Brown	Council Appointee	Human Resources Manager, Inland Empire Paper Company
David B. Walker	Council Appointee	Vice President/Private Banking, U.S. Bank
Jerry K. McFarlane	Board Appointee	Former President, Pension Consultants of the Northwest

INVESTMENT ADVISORY COMMITTEE

Dennis D. Clinton	President, Spokane City Credit Union
David B. Walker	Vice President/Private Banking, U.S. Bank
Pam Dolan	Director of Accounting, City of Spokane

STAFF

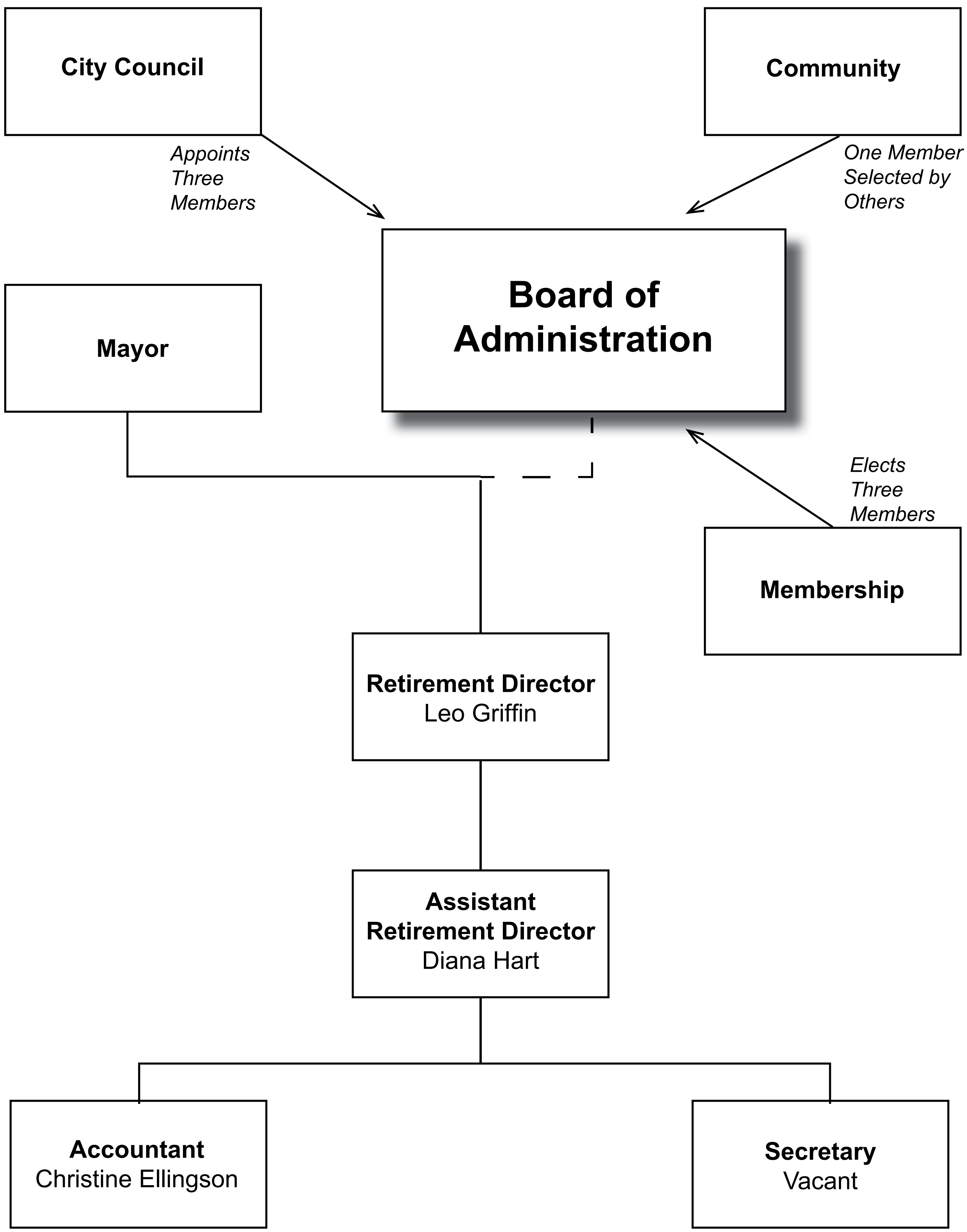
Leo F. Griffin	Retirement Director and Chief Investment Officer
Diana Hart	Assistant Retirement Director
Christine Ellingson	Accountant
Linda Ferrell	Secretary II
Timothy Szambelan	Legal Advisor

ADVISORY

Certified Public Accountants	Moss Adams, LLP
Actuary	Willis HRH Retirement Plan Consulting
Investment Performance Analysis	Hyas Group
Custodial Services	Bank of New York Mellon
Legal Counsel	Davis Wright Tremaine LLP

This Annual Report was printed and produced by Sir Speedy Printing, Spokane, WA.

Organization Chart



Description of Retirement System

Please note*: Contribution rates and certain benefits were modified effective January 1, 2009 and are disclosed in the footnotes to the financial statements. This description is a brief summary of the Retirement System as of the effective date of this Annual Report, December 31, 2008.

SERS was founded July 1, 1942 and is a defined benefit pension plan. Membership in SERS is required for all regular employees of the City of Spokane. Police and Fire are excluded as they participate in the Washington State Law Enforcement Officers and Firefighters' Retirement System. SERS is governed by a Board of Administration of seven members. Three members are appointed by the City Council and three employee members are elected by the SERS membership. The seventh member is appointed by the other six members and is not an elected official or an employee of the City.

SERS provides retirement, death, and disability benefits which vest after five years of creditable service. *A straight retirement benefit is calculated by multiplying 2.15% of the member's highest consecutive two-year monthly salary by the member's years of creditable service to a maximum of 64.5%. A number of optional forms of retirement benefits (see Service Retirement Options on the following page) are available which allow a retiree to provide benefits to his or her beneficiary with a reduction in pension benefits. *Early retirement is allowed at age 50, with five years of service, with no penalty for early retirement.

*Member contributions, currently 6.72% of total salary-based compensation, are deducted from the member's salary and paid into the retirement fund. *The City also contributes 6.72%. The City's contribution is used for funding the overall plan.

If a member has five years of service and becomes totally and permanently disabled, he or she may be eligible for a disability pension. If the disability is due to an injury incurred on the job, no minimum service is required. The amount of disability pension is calculated based on 1.25% of final average salary and credit for service as if the employee had worked until age 62.

If you terminate service within five years of entering SERS, your contributions plus interest can be refunded to you. If you are over age 50 and terminate after five years of service, you can elect to withdraw your contributions or you can elect to receive a monthly pension. If you are under age 50 and terminate after five years of service, you can withdraw your contributions or you can vest and begin receiving a pension at age 50. A number of service retirement options exist and these options are briefly explained on the following page.

Additional information can be obtained by contacting:

Spokane Employees' Retirement System
City Hall, Suite 604
808 West Spokane Falls Boulevard
Spokane, WA 99201-3324
509.625.6330

Service Retirement Options

In each option, a pension will be paid to you for your lifetime. The options provide different types of settlement to your beneficiary upon your death. Briefly, the options are as follows:

Straight Service The total pension is deducted each month from your total accumulated contributions, leaving any remaining balance to be paid to your beneficiary in one lump-sum upon your death.

Option "A" An annuity portion is deducted monthly from your total accumulations, with a lump-sum cash refund of any remaining balance being paid to your beneficiary upon your death.

Option "B" The death benefit is the same as in Option A, but it is paid in monthly payments until the balance of the total accumulations is exhausted.

Option "C" In case of death within the guaranteed period, your beneficiary receives your pension for the remainder of the pre-selected time period of 5, 10, 15, or 20 years.

Option "D" Upon your death, 50% of your pension is continued to your spouse for life.

Option "E" Upon your death, 100% of your pension is continued to your spouse for life.

If you elect options "A" through "E," your monthly pension will be actuarially reduced to provide a death benefit.

At the time of retirement, you also have the option of withdrawing your accumulations in a lump-sum payment and giving up all rights to any further benefits from the Spokane Employees' Retirement System.

Retirement rules and people's life circumstances change over the years. It is important to keep your beneficiary designation up to date. To make a beneficiary change, please contact the Retirement Department and obtain a form.

CITY OF SPOKANE

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
FIREFIGHTERS' PENSION FUND
POLICE PENSION FUND
808 W. SPOKANE FALLS BLVD.
SPOKANE, WASHINGTON 99201-3324
(509) 625-6330
FAX (509) 625-6861

LEO F. GRIFFIN, CPA
RETIREMENT DIRECTOR
AND CHIEF INVESTMENT OFFICER

DIANA HART
ASSISTANT RETIREMENT DIRECTOR

May 29, 2009

To the Honorable Mayor and
Spokane City Council
Spokane, WA 99201

This 67th Annual Report consists of five sections: The Introductory Section contains the letter of transmittal and an explanation of the administrative organization of the System; the Financial Section contains the audited financial statements of the System as well as an opinion letter from the System's independent certified public accountants; the Actuarial Section contains the consulting actuary's report along with related actuarial data and statements; the Statistical Section contains tables of significant data pertaining to the operation of the System; and the last section is the Investment Section, which includes information related to the System's investments.

The Retirement System began its first year of operations in 1942 and is managed in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code. The retirement plan is an employer-sponsored defined benefit plan that pays a determinable amount to each member who retires after a minimum number of years of service. Refer to the *Summary of Benefit and Contribution Provisions* contained in the Actuarial Section of this report for criteria and a more detailed explanation of the benefits.

The compilation of this report reflects the combined efforts of the staff under the leadership of the Retirement Board. The intention of this report is to provide complete and reliable information to assist in management decisions, to present evidence of compliance with legal provisions and to demonstrate responsible stewardship for the assets contributed by the members and their employer. The accuracy and completeness of the data contained in this report are the sole responsibility of the management of the Spokane Employees' Retirement System.

We would like to express our gratitude to the advisors and the many people who have worked so diligently to assure the successful operation of the System. Lastly, the Director would like to acknowledge the hard work and dedication of the current Retirement Department staff: Diana Hart and Christine Ellingson. Without them, this report would not be possible.

Respectfully submitted,

Board of Administration,
Spokane Employees' Retirement System
As of December 31, 2008

Leo F. Griffin

Leo F. Griffin, CPA
Retirement Director

Key Changes During the Year

Key Changes to the Spokane Employees' Retirement System
For the Year Ended December 31, 2008

May	ConvergEx was engaged for commission recapture and transition brokerage management.
July	The Board engaged the Hyas Group, effective August 1, 2008, to replace Arnerich Massena & Associates (AMA), as its independent investment consultant. Jayson Davidson, the lead consultant on the account, left AMA to form a new firm, the Hyas Group. Dale Parker, formerly with AMA, joined Mr. Davidson as a partner at Hyas.
September	The Board approved changes to the System, which are explained in the Notes to the Financial Statements and in the Spokane Municipal Code (SMC). Briefly, the contribution rate will change to 7.75% for both the employee and employer and current plan participants will be given a choice, at retirement, of a 2.15% multiplier with a 30-year cap or a 2.00% multiplier with a 35-year cap. In addition, a Rule of 75 (age plus years of service) will be introduced for those employees who enter the Plan on or after January 1, 2009; the Normal Retirement Age (NRA) remains at age 62. The changes will go into effect January 1, 2009.
December	The Board approved replacing The Bank of New York Mellon with the Union Bank of California as the System's custodian. The change will take effect April 1, 2009.
December	The Board approved a change in the ad hoc performance adjustment policy. A prorated amount will no longer be used, and an ad hoc adjustment, if granted, will be effective July 1. Refer to Board Rule X and SMC 03.05.160 for further information.

Financial Section

Sand Dollars
Key Peninsula at Lakebay, WA
Photography by Leo Griffin

MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Administration
Spokane Employees' Retirement System
Spokane, Washington

We have audited the accompanying statement of Plan net assets of the Spokane Employees' Retirement System (SERS, the System, or the Plan), a pension trust fund of the city of Spokane, Washington, as of December 31, 2008 and 2007, and the related statement of changes in Plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Spokane Employees' Retirement System as of December 31, 2008 and 2007, and the changes in Plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management discussion and analysis on pages 2 through 9 and schedule of funding progress and employer contributions on page 19 are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. This supplemental information is the responsibility of the Plan's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included on pages 20 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statement of SERS. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on such information.

Moss Adams LLP

Spokane Washington
August 17, 2009

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

This section presents management's discussion and analysis of the Spokane Employees' Retirement System's (SERS, the System, or the Plan) financial performance during the year ending December 31, 2008. Please read it in conjunction with the accompanying financial statements and the related notes.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair market value, and revenues include the recognition of unrealized gains or losses. The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. For ease of reading, the dollar amounts that appear in this narrative are rounded to the closest one thousand dollars. The basis of contributions to the System is the Projected Unit Credit funding method, with current service contributions based on the normal contribution rate determined under the funding method and unfunded prior service amortized as a level percentage of covered payroll over a period of no more than 30 years in accordance with GASB standards. Willis HRH Retirement Plan Consulting, the System's actuary, evaluates the funding status of the System.

The Financial Section contains the following information:

1. **Basic Financial Statements** including:
    a. Statement of Plan net assets
    b. Statement of changes in Plan net assets
    c. Notes to the financial statements

2. **Required Supplementary Information** including:
    a. Schedule of employer contributions
    b. Schedule of funding progress

3. **Other Supplementary Schedules** including:
    a. Schedule of administrative expenses
    b. Schedule of investment expenses

The basic financial statements are described as follows:

- The statement of Plan net assets shows the account balances at year end and includes the net assets available for future benefit payments. The liabilities for future benefit payments are not included in this statement; however, they are shown in the schedule of funding progress that is included in the required supplementary information, as well as in the documentation provided by the actuary that is included in the Actuarial Section of this annual report.
- The statement of changes in Plan net assets shows the sources and uses of funds during the year and illustrates the change in net assets from the previous year.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis (Continued)

- The notes to the financial statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The required supplementary information provides historical trends that help to reflect the ongoing Plan perspective and the long-term nature of the defined benefit plan.

- The schedule of funding progress contains actuarial information about the status of the Plan from an ongoing long-term perspective, in the accumulation of sufficient assets to pay future benefits when due. Actuarial liabilities in excess of the actuarial value of assets may indicate that insufficient assets are accumulated to fund the future benefits of current members and retirees.
- The schedule of employer contributions contains historical trend information regarding the value of the total annual contributions the employer has paid into the fund and the percentage contributed by the employer.

Financial Highlights

- Net Plan assets decreased $66.2 million (27.4%) during 2008 and increased $10.3 million (4.5%) in 2007. The 2008 decrease was primarily due to losses in the equity markets in the United States and abroad. The credit crisis of 2008 had a damaging effect on the domestic and international investment markets.
- Revenues, additions to net Plan assets, for 2008 were a negative $50.2 million, compared to a positive $25.8 million in the prior year. In 2008, revenue includes member and employer contributions of $9.8 million and net investment losses from investment activities totaling $60.0 million. Member and employer contributions increased during 2008 by $721,000 and $413,000 in 2007. Net investment income, which fluctuates year-to-year depending on market conditions, decreased $76.7 million from the prior year and decreased $4.4 million in 2007.
- Expenses, deductions from net Plan assets, for 2008 were $16.0 million, a 3.5% increase from 2007. Expenses for 2007 were $15.4 million, an 8.4% increase from 2006. Retiree benefits and withdrawals increased by $402,000 during 2008 and by $1.2 million during 2007.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Financial Statements and Analysis

Plan net assets:
The table below provides a summary of assets and current liabilities at December 31:

	2008	2007	2006
Cash, equity in pooled investments, and receivables	**$ 21,682,990**	$ 28,411,344	$ 6,648,809
Investments at fair value	**154,195,440**	213,819,507	225,197,177
Total assets	**175,878,430**	242,230,851	231,845,986
Total liabilities	**138,207**	322,030	269,865
TOTAL NET ASSETS	**$ 175,740,223**	$ 241,908,821	$ 231,576,121

Changes in Plan Net Assets

The table below provides a summary of the changes in Plan net assets during the years and reflects the activities of the fund:

	Year Ended December 31,		
	2008	2007	2006
Additions:			
Employer contributions	**$ 4,875,443**	$ 4,518,363	$ 4,287,457
Plan member contributions	**4,882,622**	4,518,363	4,336,560
Net investment income	**(59,972,361)**	16,715,588	21,140,066
Total additions (deductions)	**(50,214,296)**	25,752,314	29,764,083
Deductions:			
Monthly retiree benefits	**15,002,061**	14,253,955	13,322,042
Refunds of contributions	**370,947**	717,005	492,193
Net administrative expenses	**581,294**	448,654	412,824
	15,954,302	15,419,614	14,227,059
NET INCREASE (DECREASE)	**$ (66,168,598)**	$ 10,332,700	$ 15,537,024

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues - Additions to Net Plan Assets

- Employer contributions increased $357,000 (7.9%) in 2008 and $231,000 (5.4%) in 2007. Plan member contributions increased $364,000 (8.1%) in 2008 and $182,000 (4.2%) in 2007.
- Net investment loss was $60.0 million in 2008 compared to net investment income of $16.7 million in 2007. Fiscal year 2008 brought us one of the worst years on record in the stock market, as the credit crisis, fueled by the sub-prime mortgage crisis, unwound itself during the summer and continued a downward spiral through the fall. U.S. markets were off 37% during 2008 with international markets falling even further.

Expenses - Deductions from Net Plan Assets

- Retiree benefits increased $748,000 (5.2%) in 2008 and $932,000 (7.0%) in 2007. The number of members retiring in 2008 slowed compared to 2007. New retirees draw pensions at much higher monthly amounts compared to beneficiaries of retirees who died during the year. In addition, overall retiree benefits increased due to an increase in the number of retirees drawing benefits.
- Refunds of contributions decreased $346,000 in 2008 and increased $225,000 in 2007. Lump sum withdrawals from the Plan fluctuate from year to year.
- Net administrative expenses include salaries and benefits for the SERS director and staff, along with other costs associated with administering the Plan; further detail can be found on the schedule of administrative expenses. Net administrative expenses increased $133,000 (29.6%) during 2008 and $36,000 (8.7%) in 2007. The primary increases in 2008 were $62,000 for net salaries and benefits, $44,000 for professional services and $20,000 for Interfund Management Information Systems (MIS) charges. SERS provides its personnel to administer the LEOFF I Police and Firefighters' pension funds along with providing staff to support the two LEOFF I Boards. During 2008, SERS billed the LEOFF I funds roughly half the amount that was billed in 2007. Worked performed for the LEOFF I funds varies widely from year to year due to the unpredictable nature of these two highly specialized, closed pension funds. Furthermore, professional services spiked in 2008 due to increased legal and actuarial services associated with restructuring the SERS Plan. Lastly, Interfund MIS charges increased sharply due a new method of allocating costs devised by the MIS Department.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Plan Membership

The table below reflects changes to the census of retirees and membership in SERS:

	2008	2007	% Change Increase (Decrease)
Retirees and beneficiaries receiving normal retirement benefits	**1,008**	995	1.3%
Disability retirees	**11**	13	(15.4%)
TOTAL RETIREES AND BENEFICIARIES	**1,019**	1,008	1.1%
Current and terminated employees entitled to, but not yet receiving benefits:			
Current employee members	**1,492**	1,425	4.7%
Vested terminated members	**94**	99	(5.1%)
TOTAL CURRENT AND VESTED EMPLOYEE MEMBERS	**1,586**	1,524	4.1%

Funding Status

The actuarial accrued liability (AAL) is the actuarial present value of benefits accrued to date, adjusted to reflect future salary increases in accordance with the actuarial assumptions. The AAL funded ratio compares the AAL to Plan assets. Poor market returns earlier this decade coupled with retiree benefit adjustments were factors in the decline in the funded ratio from its December 31, 1999, peak to its first low point in 2002. A second low point, in 2008, was caused by the extreme deterioration of the world capital markets brought on by the sub-prime mortgage crisis resulting in a large loss on the System's investments. Looking back, the System lowered its discount rate from 7.5% to 7% in 2003 and increased it back to 7.5% in 2007. Other factors involved with the ratio's decline earlier this decade are actuarial losses due to differences between actual and assumed Plan experience. The AAL funded ratio, which is 65.5% at December 31, 2008, decreased by 23.6 percentage points during 2008.

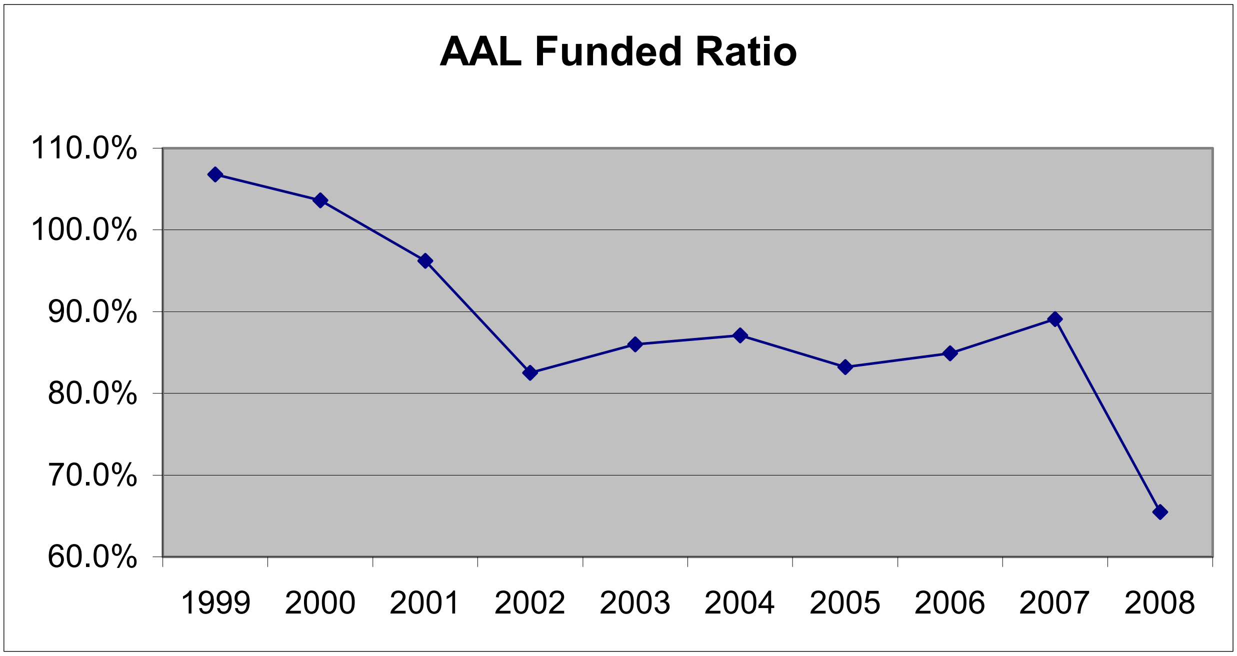
Funds are accumulated from employer and employee contributions and investment earnings, and are used to pay present and future benefit obligations and administrative expenses. Active members contribute 6.72% of their salaries to the retirement fund and Spokane (the City) contributes 6.72%. Effective January 1, 2009, the System increased the employer and employee contribution rates to 7.75%. This was the first increase in the contribution rates since 1992. Moving forward, it is expected the actuary will recommend a change in the contribution rates when an Experience Study is performed, which occurs roughly every five years.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)

MANAGEMENT DISCUSSION AND ANALYSIS

Funding Status (Continued)

Schedule of Funding Progress
Funded Ratio



Retiree Benefit Adjustment

The SERS Board of Administration considers issuing an ad hoc adjustment for retiree benefits each year. The Board can grant an ad hoc adjustment if the AAL funded ratio is 90% or greater and remains above 90% after the ad hoc adjustment is granted. As stated above, the AAL funded ratio is less than 90% as of December 31, 2008. During 2008, the Board changed its Board Rule and moved the effective date for ad hoc adjustments to July 1. Prior to this change, in March 2008, the Board did not authorize an ad hoc adjustment, which followed the actuary's recommendation. Based on the current AAL funded ratio, it will take significant favorable experience in the equity markets or a future increase in contribution levels to raise the funded ratio above its target.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Investment Activities

One-year returns on asset classes and comparative benchmarks are presented in the table below. Negative returns are displayed in brackets and the policy index and benchmarks are in italics.

	Investment Return	
	2008	2007
Total portfolio	**(24.7%)**	7.8%
Policy index	***(29.2%)***	*6.1%*
Domestic equities	**(38.0%)**	9.3%
Benchmark: Russell 3000 Index	***(37.3%)***	*5.1%*
Real estate	**(30.1%)**	(16.6%)
Benchmark: FTSE NAREIT Composite Index	***(37.8%)***	*(17.9%)*
International equities	**(39.8%)**	16.7%
Benchmark: MSCI ACWI Ex USA Index	***(45.5%)***	*16.7%*
Alternatives		
Absolute return	**(11.2%)**	-
Benchmark: Fixed Income Alternatives - Barclays Capital US Aggregate Bond Index	***5.2%***	-
Long/short growth	**(17.2%)**	-
Benchmark: Equities Alternatives - S&P 500 Index	***(37.0%)***	-
Fixed income	**4.1%**	6.8%
Benchmarks:		
Barclays Capital US Aggregate Bond Index	***5.2%***	*7.0%*
US T-Bills 90 day Index	***1.4%***	*4.4%*

The investments of the System are governed by the "prudent investor rule." The prudent investor rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund.

Cash and investments, valued at fair value, decreased $66.1 million in 2008 compared to a $10.4 million increase in 2007. The overall performance of the portfolio was negative 24.7% in 2008 and a positive 7.8% in 2007. Although the portfolio suffered a severe decline in 2008, the negative return was favorable when compared to the System's policy benchmark and topped that index by 4.5% in 2008 and by 1.7% in 2007.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Investment Activities (continued)

As shown in the table on the previous page, the 2008 investment categories underperformed when compared to the prior year. In 2008, domestic equities slightly underperformed the benchmark while international equity performance out-performed the benchmark; real estate investment performance surpassed the benchmark by a wide margin. Alternative investment returns, although negative, dampened SERS' 2008 overall loss and contributed to the overall portfolio out-performing the policy index. Lastly, while the fixed income performance was positive in 2008, the overall fixed income portfolio, which includes cash, lagged the bond index. However, SERS' large cash position in the latter half of 2008 contributed favorably to the portfolio's overall performance. 2008 was a tumultuous year in the stock market and was an extremely difficult year for most investment funds.

The System invests funds for the long-term, anticipating both good and bad financial markets. Investments are diversified to reduce investment risk and mitigate the risk of underperforming the actuarial discount rate over time. It is important to note that most of the large investment loss is categorized as an unrealized loss.

In 2007, the SERS Board adopted a new asset allocation policy, which was mostly implemented in 2008; however, due to the extreme market conditions that began in the summer of 2008, some of the asset classes have yet to be funded and the real estate limited partnerships have unfunded commitments, which are disclosed in the footnotes.

Contacting the Spokane Employees' Retirement System
If you have questions about this report or need additional information, please contact:

Spokane Employees' Retirement System
City Hall – Suite 604
808 W. Spokane Falls Blvd.
Spokane, WA 99201
509.625.6330

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
STATEMENT OF PLAN NET ASSETS

	December 31, 2008	December 31, 2007
ASSETS		
Cash	**$ 136,650**	$ 169,956
Cash and equity in pooled investments	**21,000,665**	27,442,458
Interest and dividends receivable	**545,675**	781,684
Other receivables	**-**	17,246
	21,682,990	28,411,344
Investments at fair value		
U.S. fixed income	**36,354,108**	59,554,752
U.S. equities	**46,709,905**	117,308,394
Real estate	**7,271,985**	14,609,211
International equities	**36,331,474**	11,108,460
Alternatives	**27,527,968**	11,238,690
Total investments	**154,195,440**	213,819,507
Total assets	**175,878,430**	242,230,851
LIABILITIES		
Accounts payable	**80,280**	253,828
Current portion employee salary and benefits	**22,986**	29,184
Other current liabilities	**18,817**	12,052
Employee leave benefits	**16,124**	26,966
Total liabilities	**138,207**	322,030
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**$ 175,740,223**	$ 241,908,821

(A schedule of funding progress is presented on page 34)

See accompanying notes

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)

STATEMENT OF CHANGES IN PLAN NET ASSETS

	Year Ended December 31, 2008	2007
ADDITIONS		
Contributions		
Employer	**$ 4,875,443**	$ 4,518,363
Plan members	**4,882,622**	4,518,363
Total contributions	**9,758,065**	9,036,726
INVESTMENT INCOME (LOSS)		
Net appreciation (depreciation) in fair value of investments	**(64,690,043)**	11,880,238
Interest, dividends and other investment income	**5,542,440**	6,106,251
	(59,147,603)	17,986,489
Less investment expenses	**824,758**	1,270,901
Net investment income (loss)	**(59,972,361)**	16,715,588
Total additions (deductions)	**(50,214,296)**	25,752,314
DEDUCTIONS		
Benefits	**15,002,061**	14,253,955
Refunds of contributions	**370,947**	717,005
Administrative expenses, net of administrative income	**581,294**	448,654
	15,954,302	15,419,614
CHANGE IN NET ASSETS	**(66,168,598)**	10,332,700
Net assets, beginning of year	**241,908,821**	231,576,121
Net assets, end of year (held in trust for pension benefits)	**$ 175,740,223**	$ 241,908,821

See accompanying notes

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
NOTES TO FINANCIAL STATEMENTS

Note 1 - Plan Description

The Spokane Employees' Retirement System is a single employer defined benefit pension plan covering employees of the City of Spokane, administered in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code (SMC).

SERS is a pension trust fund of the City of Spokane and is presented as a blended component unit within the fiduciary fund of the City's comprehensive annual financial report. SERS has separate legal standing. The City is financially accountable for SERS because a financial burden is imposed on the City using the criteria of financial accountability. SERS has determined that there are no entities that require inclusion within its financial statements.

All permanent employees of the City, including employees of the Plan, are eligible to belong to SERS with the exception of police and firefighters who are members of the State Law Enforcement Officers and Firefighters' Retirement System. At December 31, 2008, there were 1,019 retirees and beneficiaries receiving benefits; 94 vested terminated, including portables, entitled to future benefits; and 1,492 active members of the Spokane Employees' Retirement System for a total of 2,605 total members.

SERS provides retirement, death, and disability benefits. All employees hired on or before December 31, 2008, who participate in SERS are eligible for service retirement after completing five years of service if they are age 50 or older. Their retirement benefits are calculated by multiplying 2.15% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 64.5%. All employees hired on or after January 1, 2009, who participate in SERS are eligible for service retirement after completing five years of service and are age 50 or older; however, this group of employees must have their age plus years of service equal to 75 before they can draw a pension. Their retirement benefits are calculated by multiplying 2.0% of the member's highest consecutive two-year average salary by the member's years of creditable service, to a maximum of 70.0%. In addition, the normal retirement age for the Plan is 62. Employees hired prior to December 31, 2008, have a choice at retirement of choosing a 2.15% multiplier with a service cap of 30 years or a 2.0% multiplier with a service cap of 35 years. For either group, benefits may be reduced according to the retirement annuity option selected.

Note 2 - Summary of Significant Accounting Policies

Basis of accounting:
SERS reports in accordance with the provisions of Governmental Accounting Standards Board (GASB) No. 25, *Financial Reporting for Defined Benefit Pension Plans* as amended by GASB No. 50, *Pension Disclosures*. The financial reporting framework for defined benefit pension plans required by GASB No. 25 distinguishes between two categories for information: (a) current financial information about Plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM **(PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)**

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of accounting (continued):
The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions are recorded as revenues in the period in which payroll is due and expenses are recorded when the corresponding liabilities are incurred. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date.

Use of estimates:
In preparing the Plan's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investments:
All fixed income, common stock, and short-term investments are reflected in the statement of Plan net assets and are listed at fair market value. Short-term investments are reported at cost, which approximates fair value. Fixed income securities and common stock traded on national exchanges are valued at the last reported sales price. This market value methodology of pricing is performed by Interactive Data Corporation on a daily basis. Bloomberg and Merrill Lynch are also pricing sources. Investments that do not have an established market are reported at estimated fair value.

Certain investments, such as mutual funds and limited partnerships, net their management fees before the fund itself reports net investment income for the period. Investment fees detailed under the section "Investment Services" in the schedule of investment expenses represent cash payments made to money managers and other investment professionals. Mutual fund and limited partnership fees are not reflected in this schedule; however, investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.

Note 3 - Deposits and Investments

Deposits:
The Federal Deposit Insurance Corporation (FDIC) insures the cash deposits up to $250,000 per member of the System. As provided by State of Washington RCW 43.84, the Washington Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of $100,000. SERS' large cash and short-term deposit position at December 31, 2008, is attributable to a restructuring of its investment portfolio, which was in process at year-end, and the extreme volatility in the investment markets, which occurred during the latter part of the year.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
NOTES TO FINANCIAL STATEMENTS

Note 3 - Deposits and Investments (Continued)

Investments:
The Spokane Employees' Retirement System's investment management policy is set by the Board of Administration. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes. SERS' investments are governed by an investment authority known as the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the Plan. SERS investments are categorized to give an indication of the level of risk assumed by the Plan at year end.

Investments are reported at fair value. The Board of Administration maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Administration has contracted with investment managers, a custodian, and an independent investment consultant. Investment manager contracts include specific guidelines regarding the investments under management. The independent investment consultant monitors the fund on a regular basis and provides quarterly reports to staff and the Board. The SERS' chief investment officer (CIO), who also serves as the Retirement Director, also monitors the fund on a regular basis.

In 2007, the Board approved a new asset allocation, which includes an allocation to alternative investments. Funding of limited partnerships began in late 2007 and continued during 2008. The term "alternative investments" encompasses a broad category of nontraditional investments. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant and has been reviewed by staff and the Board. The asset allocation study that was modeled by the independent consultant demonstrated that alternative assets have negative correlations to traditional asset classes and are expected to add value to the portfolio, over time. The Director and Board believe the use of alternative investments is a prudent approach to managing risk.

Credit risk:
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SERS. Although the SERS' investment policy does not specifically address credit risk, this risk is mitigated by closely monitoring the credit quality ratings of its investment portfolios and by setting criteria for investment manager selections.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)

NOTES TO FINANCIAL STATEMENTS

Note 3 - Deposits and Investments (Continued)

Credit risk (continued):

SERS' fixed income assets, categorized with credit ratings, are as follows as of December 31, 2008:

Investment Type	Total Fair Market Value	Standard & Poor's Credit Quality Ratings					
		Treasury	Agency	AAA	AA	A	BBB
Fixed income							
Government							
Treasuries	$ 2,937,518	$ 2,937,518	$ -	$ -	$ -	$ -	$ -
Agencies	21,570,323	-	1,539,270	20,031,053	-	-	-
State and local	1,770,283	-	-	1,111,068	540,389	118,826	-
Mortgage-backed							
Corp pass through	242,590	-	-	150,695	-	91,895	-
CMOs							
Governmental CMOs	3,918,976	-	3,918,976	-	-	-	-
Corporate							
Notes and bonds	4,827,440	-	-	1,347,506	645,718	2,332,617	501,599
Asset-backed	1,086,978	-	-	285,585	289,378	512,015	-
TOTAL FIXED INCOME	$ 36,354,108	$ 2,937,518	$ 5,458,246	$ 22,925,907	$ 1,475,485	$ 3,055,353	$ 501,599
Percentage of fixed income portfolio		8.1%	15.0%	63.0%	4.1%	8.4%	1.4%

Custodial credit risk:

Custodial credit risk is the risk that in the event of a financial institution or bank failure, SERS would not be able to recover the value of its deposits and investments that are in the possession of an outside party. Under Governmental Accounting Standard No. 40, *Deposit and Investment Risk Disclosures* guidelines, SERS does not have exposure to custodial credit risk.

Concentration of credit risk:

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. The System does not have any investments from a single issuer (excluding investments in government fixed income securities) that represent more than 5% of the System's net assets.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
NOTES TO FINANCIAL STATEMENTS

Note 3 - Deposits and Investments (Continued)

Interest rate risk:
Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Although the SERS' Investment Policy does not specifically address interest rate risk, the System's fixed income portfolio is professionally managed with an expected range of interest rate risk within the portfolio. In addition, the portfolio is closely monitored by the independent consultant and the CIO. The segmented time distribution of the System's fixed income assets are as follows as of December 31, 2008:

Investment	Total Fair	Fixed Income Maturities (in years)				
Type	Market Value	<1	1 - 5	5 - 10	10 - 30	>30
Fixed income						
Government						
Treasuries	$ 2,937,518	$ -	$ 2,000,252	$ 659,109	$ 278,157	$ -
Agencies	21,570,323	1,021,094	5,267,427	3,051,633	11,609,892	620,277
State and local	1,770,283	-	359,124	938,452	472,707	-
Mortgage-backed						
Corp pass through	242,590	-	-	-	242,590	-
CMOs						
Governmental CMOs	3,918,976	-	535,747	994,372	2,388,857	-
Corporate						
Notes and bonds	4,827,440	-	1,833,570	2,089,357	863,101	41,412
Asset-backed	1,086,978	-	705,241	288,749	-	92,988
TOTAL FIXED INCOME	$ 36,354,108	$ 1,021,094	$ 10,701,361	$ 8,021,672	$ 15,855,304	$ 754,677
Percentage of fixed income portfolio		2.8%	29.4%	22.1%	43.6%	2.1%

Foreign currency risk:
Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At December 31, 2008, 20.7% of the System's portfolio is invested in international mutual funds and a limited partnership fund of funds, which primarily consist of foreign equities. The fair market value of the foreign securities is $36.3 million as of December 31, 2008. The SERS' Investment Policy does not specifically address foreign currency risk; however, the System takes foreign currency risk into consideration during the selection and monitoring process of the fund managers.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
NOTES TO FINANCIAL STATEMENTS

Note 4 - Contributions

Member and employer contribution rates are established by City Code, Chapter 4.14. The funding of SERS is currently based on the projected unit credit method of funding. SERS funding objective is to achieve and maintain an actuarial liability funded status between 90% and 110%. Member contributions are 6.72% of eligible compensation and are deducted from the member's salary and paid into the retirement fund; the City contributes 6.72% of eligible compensation for a combined total of 13.44%. Effective January 1, 2009, member and employer contribution rates changed to 7.75% for a combined total of 15.5%.

There are no long-term contracts for contributions outstanding and no legally required reserves.

Note 5 - Actuarial Information and Significant Actuarial Assumptions

As of December 31, 2008, the actuarial liability funded status ratio is 65.5%. The funding ratio decreased by 23.6 percentage points during 2008 primarily due to investment losses resulting from extreme volatility in the financial markets. Refer to the Schedule of Funding Progress in the Required Supplemental Information, which follows the notes to the financial statements, for historical information on the funded ratio and other actuarial funding data. A summary of actuarial methods and assumptions follows:

Valuation date	December 31, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent
Amortization period*	30 years - closed (29 years remaining on initial unfunded liability)
Asset valuation method	Expected Value Method with five-year smoothing and 90% - 110% market value corridor
Actuarial assumptions:	
Investment rate of return	7.5%
Inflation rate	3.0%
Projected salary increases	Ranges from 3.0% for employees with 16 or more years of service to 10.0% for employees with less than two years of years of service.
Postretirement benefit increases**	0.0%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
NOTES TO FINANCIAL STATEMENTS

Note 5 - Actuarial Information and Significant Actuarial Assumptions (Continued)

*The total contribution rate is fixed at 13.44% of payroll (6.72% for the employer and 6.72% for the employee); however, effective January 1, 2009, the member and employer contribution rates changed to 7.75% for a combined total of 15.5%. The annual required contribution has been developed to equal actual employer contributions, if possible. If not, the maximum allowable amortization period is used. Because the contribution rates are fixed, the effective amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions.

**The SERS Board can grant an ad hoc performance adjustment if the Actuarial Accrued Liability (AAL) Funded Ratio of the System is above 90%, the additional Actuarial Accrued Liability associated with the ad hoc increase does not cause the AAL Funded Ratio to drop below 90%, and the combined employer and employee contribution rates are sufficient to fund the unfunded accrued liabilities as increased by the cost of the ad hoc adjustment over a period not to exceed the maximum allowable GASB amortization period (currently 30 years). Further information can be found in the SMC 03.05.160.

Note 6 - Commitments

As of December 31, 2008, the System had unfunded commitments of $2.5 million to two limited partnership real estate funds.

SUPPLEMENTAL INFORMATION

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)

SCHEDULE OF EMPLOYER CONTRIBUTIONS/SCHEDULE OF FUNDING PROGRESS

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Employer Contribution	Percentage of ARC Contributed	Annual Excess/ (Shortfall)	Annual Pension Cost*	Percentage of APC Contributed	Net Pension Obligation
12/31/1999	$ 3,053,294	$ 3,643,468	119.33%	$ 590,174	$3,053,294	119.33%	$ (859,813)
12/31/2000	2,747,528	3,715,600	135.23%	968,072	2,706,566	137.28%	(1,868,847)
12/31/2001	3,859,885	3,894,757	100.90%	34,872	3,792,685	102.69%	(1,970,919)
12/31/2002	3,569,284	3,919,254	109.81%	349,970	3,789,014	103.44%	(2,101,159)
12/31/2003	4,547,346	4,017,431	88.35%	(529,915)	4,471,792	89.84%	(1,646,798)
12/31/2004	5,867,117	4,095,810	69.81%	(1,771,307)	5,811,040	70.48%	68,432
12/31/2005	6,015,711	4,148,874	68.97%	(1,866,837)	6,018,087	68.94%	1,937,645
12/31/2006	6,231,299	4,287,457	68.81%	(1,943,842)	6,298,582	68.07%	3,948,770
12/31/2007	5,742,761	4,518,363	78.68%	(1,224,398)	5,834,697	77.44%	5,265,104
12/31/2008	8,826,967	4,875,443	55.23%	(3,951,524)	8,949,550	54.48%	9,339,211

* Amortization of prior year's net pension obligation, with interest, plus ARC

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
12/31/1999	$ 186,394,015	$ 174,562,092	$ (11,831,923)	106.78%	$ 54,142,268	(21.85%)
12/31/2000	194,488,937	187,644,219	(6,844,718)	103.65%	55,420,648	(12.35%)
12/31/2001	190,150,661	197,656,627	7,505,966	96.20%	59,292,582	12.66%
12/31/2002	170,359,975	206,435,061	36,075,086	82.52%	56,454,409	63.90%
12/31/2003	195,723,271	227,662,674	31,939,403	85.97%	61,380,769	52.03%
12/31/2004	209,217,925	240,260,424	31,042,499	87.08%	64,252,485	48.31%
12/31/2005	216,039,097	259,791,544	43,752,447	83.16%	64,061,964	68.30%
12/31/2006	231,576,121	272,817,605	41,241,484	84.88%	67,750,706	60.87%
12/31/2007	242,615,032	272,201,880	29,586,848	89.13%	69,261,673	42.72%
12/31/2008	193,314,245	295,223,177	101,908,932	65.48%	74,183,014	137.38%

Prior to 2007, actuarial updates were performed in the even numbered years. Beginning in 2007, a full actuarial valuation was performed every year.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
SCHEDULE OF ADMINISTRATIVE EXPENSES

	2008 Budget	**2008 Actual**	2007 Actual
Personnel services:			
Salaries and wages	$ 321,406	**$ 258,308**	$ 261,516
Personnel benefits	125,665	**80,867**	76,042
Administrative Income	(102,000)	**(61,441)**	(121,501)
Total personnel services	345,071	**277,734**	216,057
Supplies:			
Office supplies	2,025	**1,013**	743
Publications	2,000	**94**	302
Postage	7,000	**6,218**	5,828
Minor equipment	3,000	**5,413**	836
Total supplies	14,025	**12,738**	7,709
Other services and charges:			
State audit charges	6,232	**7,461**	8,164
Professional services	255,074	**158,615**	114,863
Travel	10,000	**5,494**	2,809
Equipment repairs and maintenance	500	**-**	-
Registration and schooling	7,500	**3,360**	1,940
Other dues, subscriptions, and memberships	2,000	**1,395**	1,447
Printing	3,000	**2,166**	2,562
Other miscellaneous charges	1,470	**2,505**	1,015
Total other services and charges	285,776	**180,996**	132,800

Continued on next page

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)

SCHEDULE OF ADMINISTRATIVE EXPENSES

	2008 Budget	**2008 Actual**	2007 Actual
Interfund (IF) payments for services:			
IF communication	$ 5,547	**$ 5,742**	$ 5,091
IF office supplies	500	**-**	-
IF motor pool	500	**-**	-
IF risk management	2,736	**2,736**	6,088
IF unemployment	79	**79**	204
IF workers' compensation	2,377	**2,377**	1,769
IF MIS	97,202	**97,202**	76,913
IF reprographics	3,412	**813**	751
IF warrant service	950	**855**	1,098
IF parking	174	**22**	174
	113,477	**109,826**	92,088
TOTAL ADMINISTRATIVE EXPENSES, NET OF ADMINISTRATIVE INCOME	$ 758,349	**$ 581,294**	$ 448,654

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
SCHEDULE OF INVESTMENT EXPENSES

	Year Ended December 31, 2008
Investment Services	
Allegiance Capital Inc	$ 33,212
Bank of New York Mellon	2,233
Champlain Small Cap Fund, LLC	10,541
Chase Investment Counsel Corp	32,500
Eagle Capital Management LLC	59,097
ICM Asset Management	48,195
McDonnell Investment Management LLC	28,577
M.D. Sass Investor Services, Inc	38,199
Principal Real Estate Investors LLC	68,238
Rigel Capital LLC (large cap)	34,989
Rigel Capital LLC (small to mid cap)	37,880
Santa Barbara Asset Management LLC	68,636
Sterling Capital Management LLC (mid cap)	10,715
Sterling Capital Management LLC (bond)	8,789
Victory Capital Management	85,665
Wedge Capital Management LLP	32,258
Wentworth, Hauser, and Violich	33,512
	633,236
Performance Measurement	
Hyas Group, LLC*	52,188
Arnerich Massena & Associates, Inc	44,626
Custodial Services	
Bank of New York Mellon	94,708
TOTAL INVESTMENT EXPENSES	$ 824,758

*Hyas Group replaced Arnerich Massena & Associates effective August 1, 2008

Mutual fund and limited partnership fees are not reflected in this schedule; instead, these investment expenses are netted against investment income in the statement of changes in Plan net assets to arrive at a net investment income amount.

Actuarial Section

Summer Dream Office
Lakebay, WA
Photography by Leo Griffin

**SPOKANE EMPLOYEES'
RETIREMENT SYSTEM**

**ACTUARIAL VALUATION
AS OF DECEMBER 31, 2008**

Willis HRH Retirement Plan Consulting
4951 Lake Brook Drive, Suite 400, Glen Allen, VA 23060
804.747.6500 www.willis.com

April 29, 2009

Spokane Employees' Retirement System
808 West Spokane Falls Boulevard
Spokane, Washington 99201-3324

Ladies and Gentlemen:

Effective December 31, 2008, actuarial valuations of the Spokane Employees' Retirement System are performed annually. The results of the latest actuarial valuation of the System, which was prepared as of December 31, 2008, are summarized in this letter.

The valuation reflects the benefits in effect on the valuation date, and was prepared on the basis of the data submitted by the System using generally accepted actuarial principles and methods.

Financing Objective and Contribution Rate

The financing objective of the System is to:

(a) fully fund all current costs based on the normal contribution rate payable by the System determined under the funding method; and

(b) liquidate the unfunded accrued liability based on accrued liability contributions payable by the System over an amortization period of no more than 30 years; and

(c) accomplish the above through a combination of Employee Contributions (currently 7.75% of pay) and Employer Contributions (currently 7.75% of pay).

The December 31, 2008 valuation develops an Annual Required Employer Contribution Rate (ARC), exclusive of employee contributions, of 11.90% of total payroll. The ARC rate compares with an actual Employer Contribution rate of 7.75% of total payroll. The Employer Contribution for the 2008 fiscal year of $4,875,443 was less than the ARC of $8,826,967 by $3,951,524. As a result, the Net Pension Obligation (NPO) which is a measure of the excess of ARC plus the amortization of the prior year's NPO over Employer Contributions for fiscal years ended 12/31/1998 (the effective date of GASB 27) through 12/31/2008 increased from $5,265,104 to $9,339,211.

Unfunded Accrued Liability and Funded Status

The unfunded accrued liability is determined as the excess, if any, of the actuarial liability determined under the projected unit credit cost method over the actuarial value of assets. This unfunded accrued liability, and any changes in unfunded accrued liability due to changes in benefit provisions, actuarial gains and losses, and changes in methods and/or assumptions is amortized over a period of not more than 30 years, using a level percent of pay amortization method with contributions increasing 4% per year.

The unfunded accrued liability is $101,908,932 as of December 31, 2008 and is being amortized over a period of 30 years using a level percent of pay amortization method with contributions increasing 4% per year. The amortization period and method are both acceptable for determining the annual required contribution in accordance with GASB Statements 25, 27, and 34.

The actuarial funded status of the System is the ratio of the actuarial value of assets to the accrued liability. This funded status declined to 65.5% as of December 31, 2008 from 89.1% as of December 31, 2007.

Spokane Employees' Retirement System
April 29, 2009
Page two

System's Assets and Member Data

The individual data for members of the System as of the valuation date were reported to the actuary by the System. While we did not verify the data at its source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation. It is our understanding that the outside auditor of the System has also made an examination of the data.

The amount of current assets in the trust fund taken into account in the valuation was based on statements prepared for us by the System's Staff and audited by the independent auditor of the System.

Actuarial Assumptions and Methods

Actuarial assumptions are adopted by the Board, upon review of recommendations made by the actuary. An experience study was conducted for the five-year period ended December 31, 2006. This study resulted in the Board adopting several changes in assumptions as of December 31, 2007, at the recommendation of the actuary, in order to better anticipate emerging experience under the System. There have been no subsequent changes in assumptions since December 31, 2007.

The Board also adopted the use of an asset smoothing method beginning with the December 31, 2007 valuation. In order to smooth out market value fluctuations, the difference between actual investment earnings over expected investment earnings will be recognized in equal amounts over a five-year period with the restriction that the smoothed value of assets may not be less than 90% nor greater than 110% of market value.

The actuarial cost method utilized is the projected unit credit actuarial cost method. This method is an acceptable method for determining the annual required contribution in accordance with GASB Statements 25, 27 and 34.

Samples of the actuarial assumptions, and descriptions of the actuarial cost method and asset valuation method are set forth in the outline of actuarial assumptions and methods included in the report.

Legislative and Administrative Changes

Effective January 1, 2009, the following changes were enacted for all employees hired after January 1, 2009. Employees hired prior to January 1, 2009 and terminating employment after January 1, 2009 may elect at retirement to receive benefits under these plan provisions or to receive benefits under the previous plan provisions with no changes.

1. The benefit formula is 2.0% times Final Compensation (defined in Table 17) times years of Creditable Service up to 35 years. The maximum annual benefit is 70% of Final Compensation.

2. Early retirement is permitted at any time after attaining age 50 with the sum of age plus Creditable Service greater than or equal to 75.

Effective January 1, 2009, the annual Contribution Rate was changed to 15.50% of payroll (7.75% of pay paid by the Employee, 7.75% of pay paid by the Employer). Previously the Contribution Rate was 13.44% of payroll (6.72% of pay paid by the Employee, 6.72% of pay paid by the Employer).

The impact of these changes was an increase of $940,216 in accrued liability.

Spokane Employees' Retirement System
April 29, 2009
Page three

Financial Results and Membership Data

Detailed summaries of financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report and the related membership data schedules. We were responsible for providing information for all schedules included in the Actuarial Section, as well as certain schedules included in the Financial Section (Schedule of Funding Progress and Schedule of Employer Contributions) of the comprehensive annual financial report for the fiscal year ended December 31, 2008.

To the best of our knowledge, this report is complete and accurate, and the System is being operated on an actuarially sound basis. All costs and liabilities have been determined in conformance with generally accepted actuarial principles and on the basis of actuarial assumptions and methods which are individually reasonable (taking into account past experience and reasonable expectations of future experience) and which in combination represent the best estimate of anticipated experience under the System.

The undersigned are available to provide additional information or answer any questions with respect to this report.

Respectfully Submitted By:

Willis HRH Consulting

William M. Dowd, FCA, EA
Managing Principal

William J. Reid, FCA, EA
Principal

Summary of Valuation Results

Presented in this report are the results of the actuarial valuation as of December 31, 2008 for the Spokane Employees' Retirement System.

The principal results include:

- The Annual Required Employer Contribution Rate (ARC) is 11.90% of total payroll. This compares to an actual Employer Contribution rate of 7.75% of total payroll.

- The actuarial funded status of the System (ratio of actuarial value of assets to accrued liability) as of December 31, 2008 is 65.5% as compared to 89.1% as of December 31, 2007.

- The actuarial funded status of the System as of December 31, 2008 was 65.7% before the changes in plan provisions described below. The net impact of the changes was to reduce the funded status by 0.2% as of December 31, 2008.

The valuation was completed based on membership and financial data submitted by the System.

The following changes have been made since the last actuarial valuation:

- **Actuarial Assumptions and Methods**

  Actuarial assumptions are adopted by the Board, upon review of recommendations made by the actuary. An experience study was conducted for the five-year period ended December 31, 2006. This study resulted in the Board adopting several changes in assumptions as of December 31, 2007, at the recommendation of the actuary, in order to better anticipate emerging experience under the System. There have been no subsequent changes in assumptions since December 31, 2007.

  The Board also adopted the use of an asset smoothing method beginning with the December 31, 2007 valuation. In order to smooth out market value fluctuations, the difference between actual investment earnings over expected investment earnings will be recognized in equal amounts over a five-year period with the restriction that the smoothed value of assets may not be less than 90% nor greater than 110% of market value.

- **Legislative and Administrative Changes**

  Effective January 1, 2009, the following changes were enacted for all employees hired after January 1, 2009. Employees hired prior to January 1, 2009 and terminating employment after January 1, 2009 may elect at retirement to receive benefits under these plan provisions or to receive benefits under the previous plan

  1. The benefit formula is 2.0% times Final Compensation (defined in Table 17) times years of Creditable Service up to 35 years. The maximum annual benefit is 70% of Final Compensation.

  2. Early retirement is permitted at any time after attaining age 50 with the sum of age plus Creditable Service greater than or equal to 75.

  Effective January 1, 2009, the annual Contribution Rate was changed to 15.50% of payroll (7.75% of pay paid by the Employee, 7.75% of pay paid by the Employer). Previously the Contribution Rate was 13.44% of payroll (6.72% of pay paid by the Employee, 6.72% of pay paid by the Employer).

  The impact of these changes was an increase of $940,216 in accrued liability.

Summary of Valuation Results (continued)

Demographics	**2008**	**2007**
Active		
Number	1,492	1,425
Average Pay for Coming Year	$ 49,721	$ 48,605
Retired and Beneficiaries		
Number	1,019	1,008
Average Annual Allowance	14,872	14,566
Terminated Vested and Portables		
Number	94	99
Total Membership	2,605	2,532

Unfunded Accrued Liability		
Accrued Liability as of December 31	$295,223,177	$272,201,880
Actuarial Asset Value	$193,314,245	$242,615,032
Unfunded Accrued Liability	$101,908,932	$ 29,586,848
Actuarial Value Funded Status	65.5%	89.1%
Contribution Rates		
Annual Required Contribution (ARC) Rate*	11.90%	8.29%
Actual Employer Contribution Rate	7.75%	6.72%

* Exclusive of Employee Contributions (7.75% of pay for 12/31/2008 valuation, 6.72% of pay for 12/31/2007 valuation)

Summary of Valuation Results (continued)

Contribution Rates

The results of the valuation as of December 31, 2008 determine the ARC rate for the System. The actual Employer Contribution rate is compared to the contribution rate developed in the valuation in order to determine the appropriateness of the actual Employer Contribution rate. As of December 31, 2008 the actual Employer Contribution rate of 7.75% is less than the ARC rate of 11.90%. The Net Pension Obligation, which is the cumulative excess of Annual Required Contributions over actual Employer Contributions adjusted with interest for fiscal years ended 12/31/1998 (the effective date of GASB 27) through 12/31/2008, was $9,339,211.

Reasons for Change in the Rate

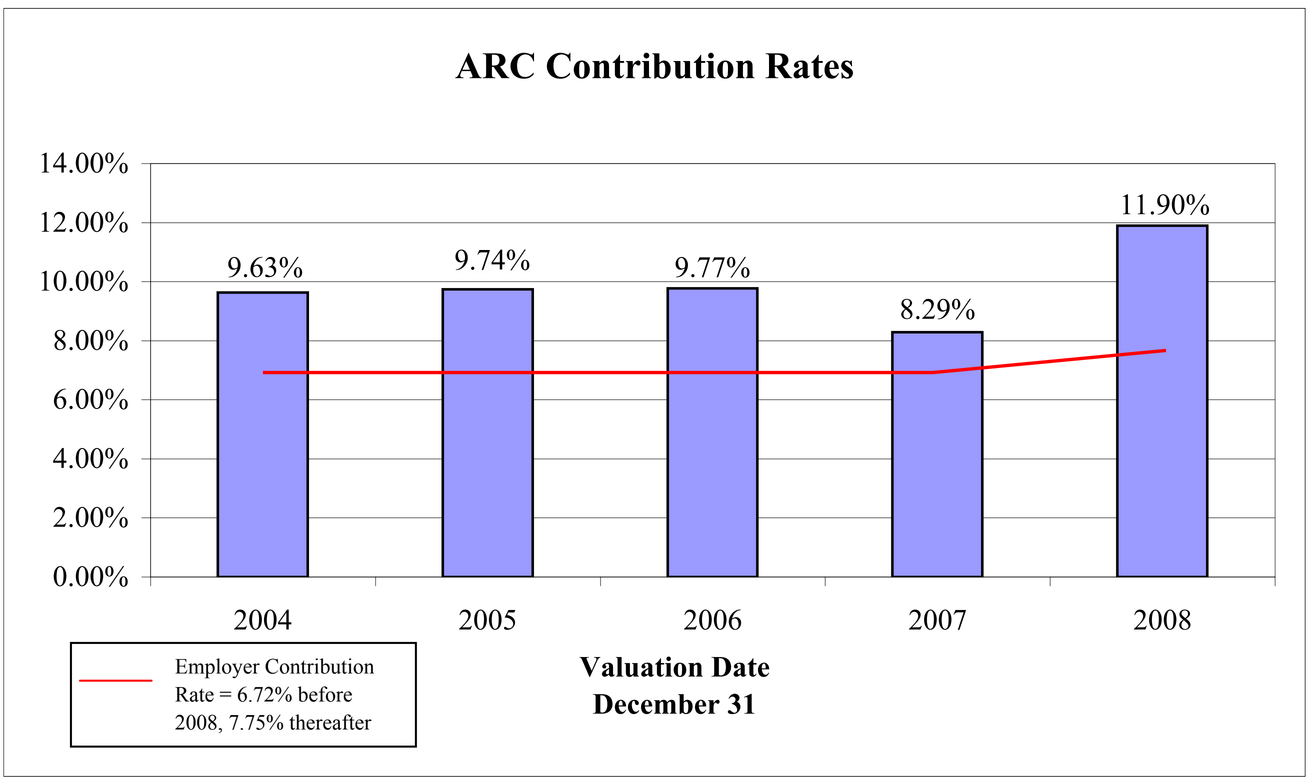
The recommended employer contribution rate as determined by the ARC increased from 8.29% as of December 31, 2007 to 11.90% as of December 31, 2008. The increase of 3.61% is due to the following reasons:

• Increase due to return on actuarial assets	4.30%
• Increase due to change in benefit provisions	0.07%
• Decrease due to change in employee contribution rate	(1.03%)
• Increase due to other factors	0.27%
• Total	3.61%

Summary of Valuation Results (continued)

Five-Year History of Contribution Rates
(As a % of payroll)

Valuation Date	ARC	Employer Rate
2004	9.63%	6.72%
2005	9.74%	6.72%
2006	9.77%	6.72%
2007	8.29%	6.72%
2008	11.90%	7.75%



Summary of Valuation Results (continued)

Unfunded Accrued Liability

The financing objective of the System is to:

- fully fund all current costs based on the normal contribution rate payable by the System determined under the funding method; and

- liquidate the unfunded accrued liability based on accrued liability contributions payable by the System over an amortization period of no more than 30 years; and

The System's unfunded accrued liability is measured by comparing the smoothed fair value of assets with the accrued liability. The accrued liability is determined under the projected unit credit cost method.

On this basis, the System's unfunded accrued liability is $101,908,932 as of December 31, 2008. The unfunded accrued liability is based on a smoothed fair value of assets of $193,314,245 and an accrued liability of $295,223,177.

Reasons for Change in the Unfunded Accrued Liability

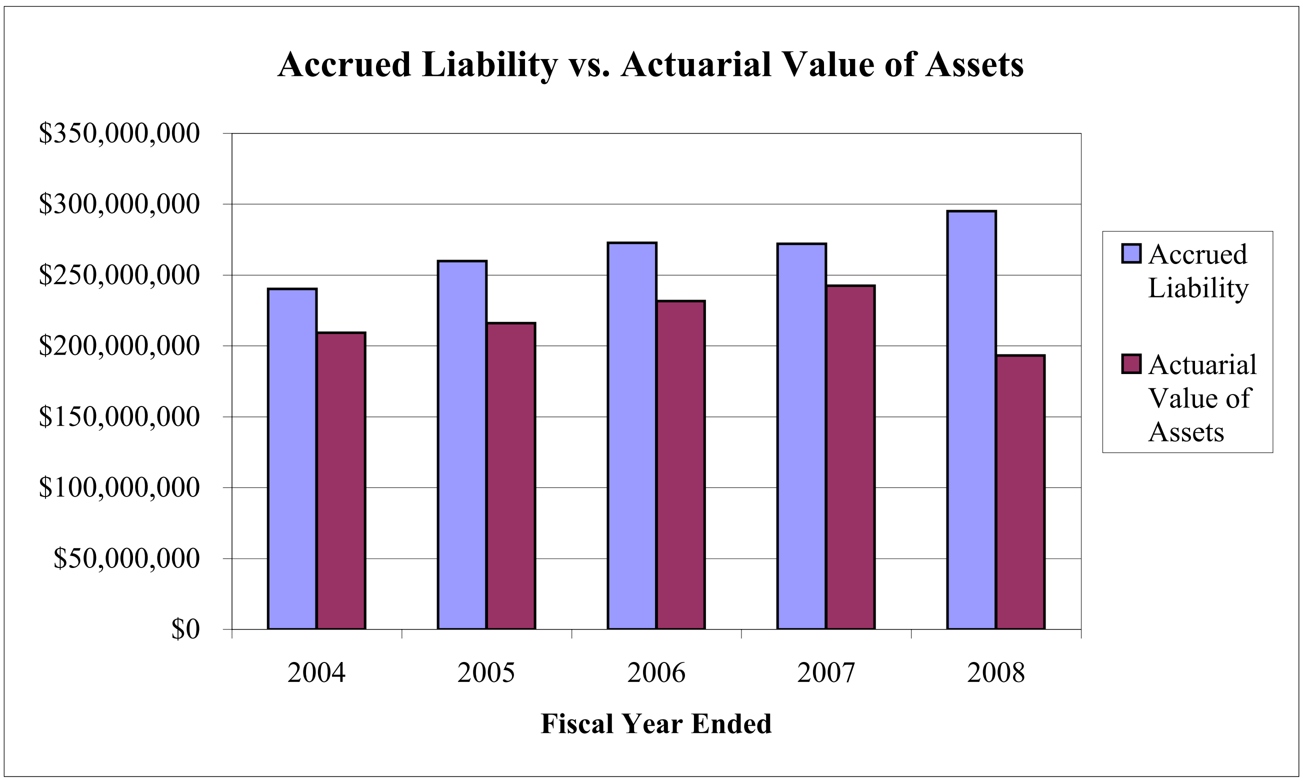
The unfunded accrued liability was expected to be $29,968,046 as of December 31, 2008 based on the actuarial assumptions summarized in Table 16 of this report. The actual unfunded accrued liability was $101,908,932 as of December 31, 2008. Investment loss on the actuarial value of assets was the primary reason for the increase in unfunded accrued liability.

Investment loss on the actuarial value of assets resulted in an increase in the unfunded accrued liability of $61,675,212. In addition, changes to the benefit formula increased the unfunded accrued liability by $940,216 and demographic experience (primarily salary increases greater than assumed) increased the unfunded accrued liability by $9,325,452.

Summary of Valuation Results (continued)

Five-Year History of Accrued Liability and Actuarial Value of Assets

Fiscal Year Ending	Accrued Liability	Actuarial Value of Assets
2004	$240,260,424	$209,217,925
2005	$259,791,544	$216,039,097
2006	$272,817,605	$231,576,121
2007	$272,201,880	$242,615,032
2008	$295,223,177	$193,314,245



Summary of Valuation Results (continued)

Funded Status

The funded status measures the ratio of the accrued liability to the value of assets.

The actuarial value funded status is calculated using the smoothed value of assets. On this basis, the System's funded status is 65.5% as of December 31, 2008. The funded status is based on a smoothed fair value of assets of $193,314,245 and an accrued liability of $295,223,177.

The market value funded status is calculated using the market value of assets. On this basis, the System's funded status is 59.5% as of December 31, 2008. The funded status is based on a market value of assets of $175,740,223 and an accrued liability of $295,223,177.

Reasons for Change in Funded Status

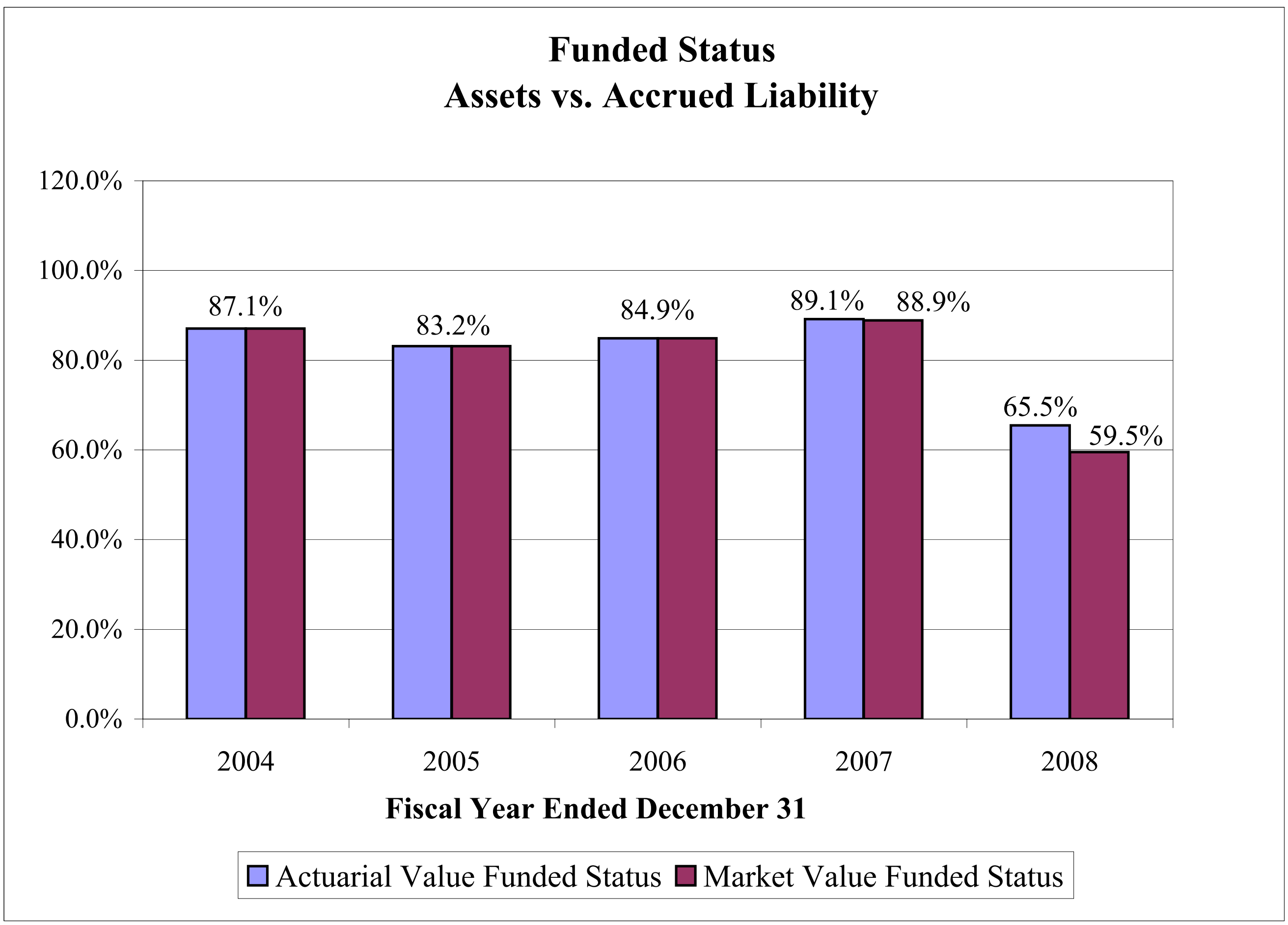
The actuarial value funded status decreased from 89.1% as of December 31, 2007 to 65.5% as of December 31, 2008. The market value funded status decreased from 88.9% as of December 31, 2007 to 59.5% as of December 31, 2008. In both cases, loss on investments was the primary reason for the decrease.

Prior to any changes, the actuarial value funded status was 65.7% as of December 31, 2008. The change in benefit formula which current employees can elect at retirement decreased the actuarial funded status to 65.5%.

Summary of Valuation Results (continued)

Five-Year History of Funded Status
(Assets vs. Accrued Liability)

Fiscal	Funded Status	
Year Ending	Actuarial Basis	Market Basis
2004	87.1%	87.1%
2005	83.2%	83.2%
2006	84.9%	84.9%
2007	89.1%	88.9%
2008	65.5%	59.5%



Beginning with the December 31, 2007 valuation, the Actuarial Funded Status is based on the Smoothed Fair Value of Assets described in Table 16 of this report. Prior to 2007, the Actuarial Funded Status was equal to the Market Value Funded Status.

Summary of Valuation Results (continued)

Rate of Return

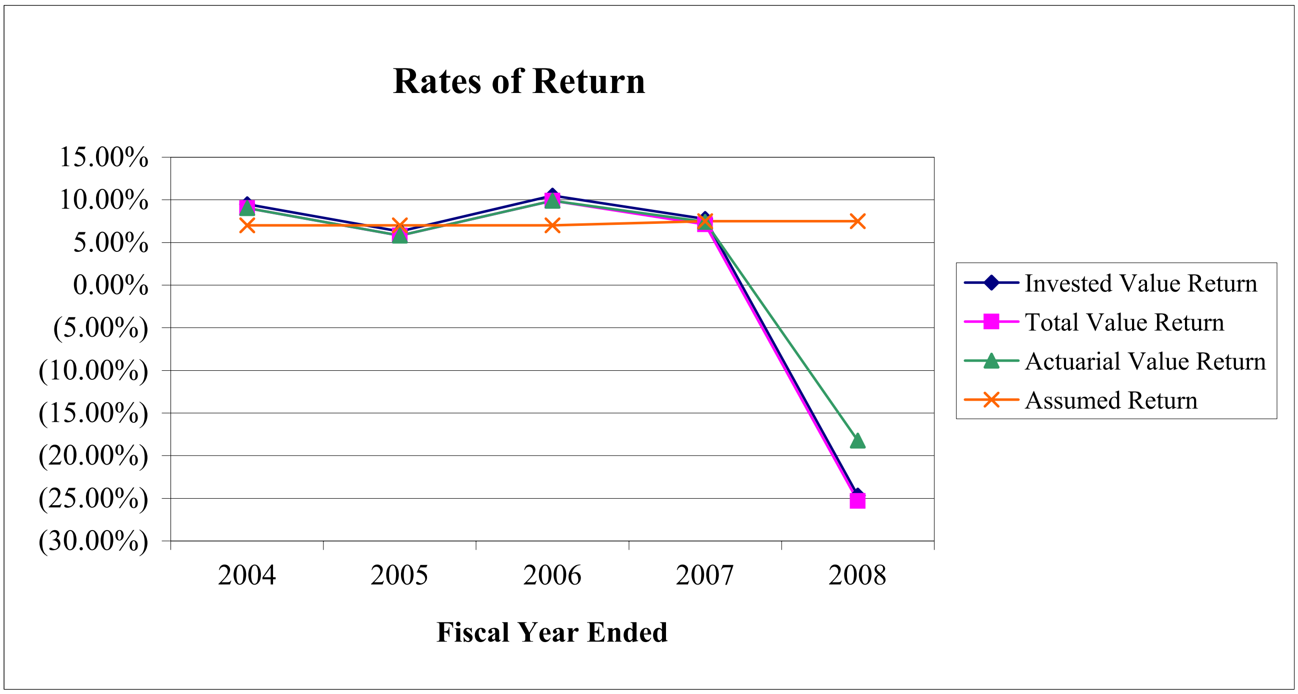
The investment return of the trust fund (i.e. total return including both realized and unrealized gains and losses) based on the market value of invested assets for the fiscal year ended December 31, 2008 was -24.68%. However, since some contributions go directly to paying benefits and are never invested in the trust, the net investment return on total assets of the System was -25.33%. The investment return on the smoothed fair value of assets was -18.22%. The expected rate of return was 7.50%.

The smoothed fair value of assets is determined using a method that is designed to smooth the impact of market fluctuations. Unlike the market value, which immediately reflects all investment gains and losses during the year, the smoothed fair value recognizes annual appreciation and depreciation over a five-year period.

Summary of Valuation Results (continued)

Five-Year History of Rates of Return

Fiscal Year	Rate of Return on Assets			
Ending	Invested	Total	Actuarial	Assumed
2004	9.50%	9.05%	9.05%	7.00%
2005	6.30%	5.80%	5.80%	7.00%
2006	10.50%	9.91%	9.91%	7.00%
2007	7.76%	7.12%	7.42%	7.50%
2008	(24.68%)	(25.33%)	(18.22%)	7.50%



Supporting Information

The remainder of the report is comprised of the following sections or schedules:

Table 1	Demographics
Table 2	Asset Information
Table 3	Accrued Liability and Funded Status
Table 4	Actuarial (Gain)/Loss
Table 5	Amortization Schedule
Table 6	Normal Cost
Table 7	Contribution Summary
Table 8	Schedule of Funding Progress
Table 9	Schedule of Employer Contributions
Table 10	Historical Summary of Fund Additions and Deductions
Table 11	Schedule of Membership
Table 12	Schedule of Active Members Valuation Data
Table 13	Schedule of Retirees Added to and Removed from Rolls
Table 14	Schedule of Retired Members by Type of Benefit; Schedule of Benefit Payments by Type
Table 15	Schedule of Average Annual Benefit Payments
Table 16	Description of Actuarial Assumptions and Methods
Table 17	Summary of Benefit and Contribution Provisions
Appendix	Data Tables

Table 1

DEMOGRAPHICS

	2008	2007	Increase/ (Decrease)
Number of Members:			
Retirees	900	880	20
Beneficiaries	108	115	(7)
Disabled	11	13	(2)
Terminated Vested*	68	68	0
Portables	26	31	(5)
Active	1,492	1,425	67
Total Members	2,605	2,532	73
Projected Compensation for Coming Year	74,183,014	69,261,673	4,921,341
Average Compensation for Coming Year	49,721	48,605	1,116
Average Age (Active Members)	47.71	47.75	(0.04)
Average Service (Active Members)	11.81	11.96	(0.15)
Annual Retirement Allowance	15,155,066	14,682,156	472,910
Average Annual Retirement Allowance	14,872	14,566	306
Average Monthly Retirement Allowance	1,239	1,214	25

* The 68 Terminated Vested participants reported as of December 31, 2008 include 6 participants who have earned vesting rights but have not yet applied to the Board.

Table 2

ASSET INFORMATION

Statement of Net Assets as of December 31, 2008

1. Cash & Equity in Pooled Investments		21,137,315
2. Investments		
a. U. S. Fixed Income	36,354,108	
b. U. S. Equities	46,709,905	
c. Real Estate	7,271,985	
d. International Equities	36,331,474	
e. Alternatives	27,527,968	
f. Total Investments		154,195,440
3. Receivables		
a. Accrued Interest and Dividends	545,675	
b. Taxes	0	
c. Other	0	
d. Total Receivables		545,675
4. Liabilities		
a. Accounts Payable	(80,280)	
b. Salary & Benefits	(39,110)	
c. Other	(18,817)	
d. Total Liabilities		(138,207)
5. Total Market Value of Net Assets		175,740,223

Table 2

ASSET INFORMATION

Market Value Reconciliation

1. Total Market Value of Net Assets, 12/31/2007		241,908,821
2. Audit Adjustment		-
3. Contributions		
a. Employer	4,875,443	
b. Employee	4,882,622	
c. Total Contributions		9,758,065
4. Investment Earnings		
a. Interest & Dividends & Other Income	5,542,440	
b. Realized & Unrealized Gain/(Loss)	(64,690,043)	
c. Investment Expenses	(824,758)	
d. Total Investment Earnings		(59,972,361)
5. Benefit Payments		
a. Benefits	(15,002,061)	
b. Refund of Contributions	(370,947)	
c. Total Benefit Payments		(15,373,008)
6. Administrative Expenses		(581,294)
7. Total Market Value of Net Assets, 12/31/2008		175,740,223
8. Approximate Rate of Return on Total Assets		-25.33%
9. Approximate Rate of Return on Invested Assets		-24.68%

Table 2

ASSET INFORMATION

Smoothed Fair Value of Net Assets Determination

1. Total Market Value of Net Assets, 12/31/2007	241,908,821
2. Expected Return for Plan Year	17,936,408
3. Actual Return for Plan Year	(60,553,655)
4. Total Market Value of Net Assets, 12/31/2008	175,740,223

5. Determination of Deferred Gain (Loss)

Fiscal Year	Actual vs. Expected Return	Portion Deferred	Deferred Amount
2008	(78,490,063)	4/5	(62,792,050)
2007	(882,764)	3/5	(529,658)
2006	N/A	2/5	N/A
2005	N/A	1/5	N/A
Total	(79,372,827)		(63,321,708)

6. Preliminary Smoothed Fair Value of Net Assets	239,061,931
7. Ratio of Preliminary Smoothed Fair Value to Market Value	136.03%
8. Smoothed Fair Value of Net Assets (7., but not less than 90% nor more than 110% of 4.)	193,314,245
9. Ratio of Smoothed Fair Value to Market Value	110.00%
10. Approximate Rate of Return on Smoothed Fair Value of Net Assets	-18.22%

Table 3

ACCRUED LIABILITY AND FUNDED STATUS

1. Accrued Liability prior to Changes in Benefit Provisions and Assumptions		
a. Active	139,934,837	
b. Terminated Vested & Portables	8,214,528	
c. Retirees	136,868,327	
d. Beneficiaries	7,821,088	
e. Disableds	1,444,181	
f. Total Accrued Liability prior to Changes		294,282,961
2. Actuarial Value of Assets		193,314,245
3. Unfunded Accrued Liability prior to Changes (1.f. - 2.)		100,968,716
4. Change in Unfunded Accrued Liability		
a. Due to Changes in Plan Provisions	940,216	
b. Due to Changes in Assumptions	0	
c. Due to Change in Asset Method	0	
d. Total Change in Unfunded Accrued Liability		940,216
5. Actual Unfunded Accrued Liability (3. + 4.c.)		101,908,932
6. Funded Liability Percentage as of December 31, 2008		65.5%

Table 4

ACTUARIAL (GAIN)/LOSS

1. Increase (decrease) in Unfunded Accrued Liability

a. Unfunded Accrued Liability, prior year	29,586,848
b. Projected Unit Credit Normal Cost (excluding expenses)	7,701,918
c. Contributions	9,758,065
d. Interest	2,437,345
e. Expected Unfunded Accrued Liability, current year (a. + b. - c. + d.)	29,968,046
f. Actual Unfunded Accrued Liability, current year before benefit and assumption changes	100,968,716
g. (Gain)/Loss (f. -e.)	71,000,670

2. Reasons for (Gain)/Loss

a. Investment Return on Smoothed Fair Value of Assets	61,675,218
b. Other	9,325,452
c. Total	71,000,670

Table 5

AMORTIZATION SCHEDULE*

Date Established	Source	Initial Amount	Remaining Balance	Years to Amortize	Required Payment
12/31/2008	Plan Amendment	940,216	940,216	30	48,626
12/31/2008	Actuarial Loss	71,000,670	71,000,670	30	3,671,999
12/31/2007	Unfunded Liability	29,586,848	29,968,046	29	1,591,374
Total		101,527,734	101,908,932		5,311,999

* Effective December 31, 2007, a fresh start amortization base was established equal to the excess of the actuarial liability over the smoothed fair value of assets.

Table 6

NORMAL COST

1. Normal Cost for All Benefits	8,664,152
2. Offset for Employee Contributions	(5,749,184)
3. Estimated Expenses	600,000
4. Total	3,514,968

Table 7

CONTRIBUTION SUMMARY

1. Annual Required Contribution Amount		
a. Normal Cost	3,514,968	
b. Amortization Charges	5,311,999	
c. Total		8,826,967
2. Annual Required Contribution Rate		
a. Normal Cost	4.74%	
b. Amortization Charges	7.16%	
c. Total		11.90%
3. Projected Pay for the Upcoming Year		74,183,014

Table 8

SCHEDULE OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	UAL as a % of Covered Payroll
12/31/99	186,394,015	174,562,092	(11,831,923)	106.78%	54,142,268	-21.85%
12/31/00	194,488,937	187,644,219	(6,844,718)	103.65%	55,420,648	-12.35%
12/31/01	190,150,661	197,656,627	7,505,966	96.20%	59,292,582	12.66%
12/31/02	170,359,975	206,435,061	36,075,086	82.52%	56,454,409	63.90%
12/31/03	195,723,271	227,662,674	31,939,403	85.97%	61,380,769	52.03%
12/31/04	209,217,925	240,260,424	31,042,499	87.08%	64,252,485	48.31%
12/31/05	216,039,097	259,791,544	43,752,447	83.16%	64,061,964	68.30%
12/31/06	231,576,121	272,817,605	41,241,484	84.88%	67,750,706	60.87%
12/31/07	242,615,032	272,201,880	29,586,848	89.13%	69,261,673	42.72%
12/31/08	193,314,245	295,223,177	101,908,932	65.48%	74,183,014	137.38%

Table 9

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(GASB 27 Annual Required Contribution effective with fiscal year ended 12/31/98)

Fiscal Year Ended	Annual Required Contribution	Actual Employer Contribution	Percentage of ARC Contributed	Annual Excess/ (Shortfall)	Annual Pension Cost*	Percentage of APC Contributed	Net Pension Obligation
12/31/1999	3,053,294	3,643,468	119.33%	590,174	3,053,294	119.33%	(859,813)
12/31/2000	2,747,528	3,715,600	135.23%	968,072	2,706,566	137.28%	(1,868,847)
12/31/2001	3,859,885	3,894,757	100.90%	34,872	3,792,685	102.69%	(1,970,919)
12/31/2002	3,569,284	3,919,254	109.81%	349,970	3,789,014	103.44%	(2,101,159)
12/31/2003	4,547,346	4,017,431	88.35%	(529,915)	4,471,792	89.84%	(1,646,798)
12/31/2004	5,867,117	4,095,810	69.81%	(1,771,307)	5,811,040	70.48%	68,432
12/31/2005	6,015,711	4,148,874	68.97%	(1,866,837)	6,018,087	68.94%	1,937,645
12/31/2006	6,231,299	4,287,457	68.81%	(1,943,842)	6,298,582	68.07%	3,948,770
12/31/2007	5,742,761	4,518,363	78.68%	(1,224,398)	5,834,697	77.44%	5,265,104
12/31/2008	8,826,967	4,875,443	55.23%	(3,951,524)	8,949,550	54.48%	9,339,211

* Amortization of prior year's Net Pension Obligation, with interest, plus ARC

Table 10

HISTORICAL SUMMARY OF FUND ADDITIONS AND DEDUCTIONS

ADDITIONS BY SOURCE

Fiscal Year Ended	Employer Contributions as a Percent of Payroll	Employer Contributions	Employee Contributions	Net Investment Income	Total
12/31/99	6.72%	3,643,468	3,655,819	18,454,642	25,753,929
12/31/00	6.72%	3,715,600	3,715,600	10,470,991	17,902,191
12/31/01	6.72%	3,894,757	3,895,131	(1,820,109)	5,969,779
12/31/02	6.72%	3,919,254	3,919,254	(16,687,140)	(8,848,632)
12/31/03	6.72%	4,017,431	4,029,561	28,862,507	36,909,499
12/31/04	6.72%	4,095,810	4,152,843	17,530,588	25,779,241
12/31/05	6.72%	4,148,874	4,154,743	11,985,450	20,289,067
12/31/06	6.72%	4,287,457	4,336,560	21,140,066	29,764,083
12/31/07	6.72%	4,518,363	4,518,363	16,715,588	25,752,314
12/31/08	6.72%	4,875,443	4,882,622	(59,972,361)	(50,214,296)

DEDUCTIONS BY TYPE

Fiscal Year Ended	Benefit Payments	Refunds	Admin Expenses	Total
12/31/99	7,779,528	502,764	375,385	8,657,677
12/31/00	8,704,644	520,973	429,178	9,654,795
12/31/01	9,371,697	480,050	399,918	10,251,665
12/31/02	10,042,276	488,945	410,833	10,942,054
12/31/03	10,599,607	461,226	485,370	11,546,203
12/31/04	11,109,084	576,433	494,831	12,180,348
12/31/05	12,404,497	605,600	457,798	13,467,895
12/31/06	13,322,042	492,193	412,824	14,227,059
12/31/07	14,253,955	717,005	448,654	15,419,614
12/31/08	15,002,061	370,947	581,294	15,954,302

Table 11

SCHEDULE OF MEMBERSHIP

Fiscal Year Ended	Active Members	Terminated Vested Members	Service Retirees and Beneficiaries	Disabled Retirees	Total Retirees	Total Members
12/31/99	1,467	70	739	18	757	2,294
12/31/01	1,475	69	789	16	805	2,349
12/31/03	1,457	72	825	13	838	2,367
12/31/05	1,387	84	917	13	930	2,401
12/31/06	1,414	95	955	13	968	2,477
12/31/07	1,425	99	995	13	1,008	2,532
12/31/08	1,492	94	1,008	11	1,019	2,605

Table 12

SCHEDULE OF ACTIVE MEMBERS VALUATION DATA

Fiscal Year Ended	Active Members	Covered Payroll	Average Payroll Rate	Annual Percentage Increase in Average Payroll Rate
12/31/1999	1,467	54,142,268	36,907	3.53%
12/31/2001	1,475	59,292,582	40,198	4.36%
12/31/2003	1,457	61,380,769	42,128	2.37%
12/31/2005	1,387	64,061,964	46,187	4.71%
12/31/2006	1,414	67,750,706	47,914	3.74%
12/31/2007	1,425	69,261,673	48,605	1.44%
12/31/2008	1,492	74,183,014	49,721	2.30%

Table 13

SCHEDULE OF RETIREES ADDED TO AND REMOVED FROM ROLLS

Fiscal Year Ended	Added	Annual Allowances Added	Removed	Annual Allowances Removed	Total	Annual Allowances	Percent Change	Average Annual Allowances	Retirees as Percent of Active Members	
									Number	Pay
12/31/2006	71	1,252,138	34	339,133	968	13,645,458	N/A	14,097	68.5%	20.1%
12/31/2007	75	1,389,758	35	353,060	1,008	14,682,156	7.6%	14,566	70.7%	21.2%
12/31/2008	50	830,767	39	357,857	1,019	15,155,066	3.2%	14,872	68.3%	20.4%

Table 14

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

Amount of Monthly Benefit	Number of Retirees	Type of Retirement*			Option Selected**						
		1	2	3	LIFE	C1	C2	C3	C4	D	E
1 - 100	2	2	0	0	2	0	0	0	0		
101 - 200	22	17	0	5	6	0	0	0	0	2	14
201 - 300	31	28	0	3	19	2	1	0	0	3	6
301 - 400	56	41	0	15	28	1	0	0	0	7	20
401 - 500	67	51	1	15	33	0	0	1	1	11	21
501 - 600	61	53	0	8	39	0	0	1	0	5	16
601 - 700	62	53	2	7	31	1	0	0	0	9	21
701 - 800	65	55	1	9	38	0	0	0	2	10	15
801 - 900	59	52	1	6	37	0	1	0	0	7	14
901 - 1,000	56	50	0	6	25	3	1	0	0	7	20
1,001 - 1,500	214	185	6	23	109	1	2	1	1	25	75
1,501 - 2,000	158	148	0	10	78	0	0	0	1	22	57
Over 2,000	166	165	0	1	75	3	0	1	0	32	55
Total	1,019	900	11	108	520	11	5	4	5	140	334

*Type of Retirement:
1 Service Retirement
2 Disability Retirement
3 Beneficiary

**Option Selected:

Life	Remaining accumulated balance paid to beneficiary
Opt. C1	60 months guaranteed
Opt. C2	120 months guaranteed
Opt. C3	180 months guaranteed
Opt. C4	240 months guaranteed
Opt. D	50% continuation to beneficiary
Opt. E	100% continuation to beneficiary

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended	Service Retirement	Disability Retirement	Beneficiaries	Refunds	Total Benefits
12/31/1998	6,495,974	119,770	711,738	547,031	7,874,513
12/31/1999	6,921,021	145,322	713,185	502,764	8,282,292
12/31/2000	7,811,737	148,801	744,106	520,973	9,225,617
12/31/2001	8,395,024	152,803	823,870	480,050	9,851,747
12/31/2002	9,047,124	145,753	849,399	488,945	10,531,221
12/31/2003	9,557,946	142,349	899,312	461,226	11,060,833
12/31/2004	10,058,421	150,494	900,169	576,433	11,685,517
12/31/2005	11,313,520	148,355	942,622	605,600	13,010,097
12/31/2006	12,189,473	143,990	988,579	492,193	13,814,235
12/31/2007	13,115,104	143,990	994,861	717,005	14,970,960
12/31/2008	13,835,194	136,093	1,030,774	370,947	15,373,008

Table 15

SCHEDULE OF AVERAGE ANNUAL BENEFIT PAYMENTS

Fiscal Year Ended	Service Retirement and Beneficiaries	Disability Retirement	Total	Annual Percentage Increase in Average Benefits
12/31/1999	10,330	8,073	10,277	4.64%
12/31/2001	11,684	9,550	11,642	6.43%
12/31/2003	12,675	10,950	12,649	4.24%
12/31/2005	13,365	11,412	13,338	2.69%
12/31/2006	13,799	11,076	13,762	3.18%
12/31/2007	14,181	11,076	14,141	2.75%
12/31/2008	14,748	12,372	14,722	4.11%

Table 16

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Cost Method

The actuarial cost method used to determine the actuarial accrued liability and the normal cost is the Projected Unit Credit (PUC) Actuarial Cost Method. The accrued liability and the normal cost are used to determine the City's contribution requirement. Under this method, a PUC accrued benefit is determined for each active member in the plan on the basis of the member's average final compensation projected to the assumed date of retirement and the member's creditable service at the valuation date. The actuarial accrued liability for retirement benefits is the sum of the actuarial present value of the PUC accrued benefit for each active member. The normal cost for retirement benefits is the sum of the actuarial present value of the expected increase in the PUC accrued benefit during the plan year for each active member under the assumed retirement age.

The actuarial accrued liability and normal cost for termination benefits, disability benefits, and pre-retirement spouse's death benefits are determined in a similar manner by projecting the member's average final compensation to each assumed date of termination, disablement, or death.

The actuarial accrued liability for inactive members is determined as the actuarial present value of the benefits expected to be paid; no normal cost is determined for these members.

Unless otherwise specified, the following actuarial assumptions and methods were adopted December 31, 2007.

Actuarial Assumptions

Mortality: Healthy Lives — 1994 Group Annuity Mortality Static Table

Disabled Lives — 1994 Group Annuity Mortality Static Table

Interest: 7.5% per annum, compounded annually

Turnover: In accordance with the following table based on service:

Years of Service	Turnover Probability
<3	8.0%
3-6	5.0%
7-9	4.0%
10-14	3.0%
15+	2.0%

Table 16

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS

Retirement: In accordance with the following table based on age:

Age	Retirement Probability
<50	0.0%
50	8.0%
51	7.0%
52	6.0%
53-54	5.0%
55	9.0%
56	8.0%
57-60	7.0%
61	10.0%
62	20.0%
63-65	25.0%
66	30.0%
67-68	35.0%
69-70	40.0%
71	45.0%
72	50.0%
73+	100.0%

Disability: None assumed

Salary Increases: In accordance with the following table based on service:

Years of Service	Annual Increase
<2	10.0%
2-3	8.0%
4-15	3.5%
16+	3.0%

Inflation Rate: 3.00% per year

Non-Investment Expenses: Prior year's actual amount rounded up to next $100,000

Family Composition: 75% of employees are assumed to be married with males assumed to be four years older than their spouses.

Asset Valuation Basis

Smoothed fair value of assets, which is the Market Value with a five year averaging of the difference between actual and expected investment performance subject to the restriction that the smoothed fair value of assets must not be less than 90% nor greater than 110% of Market Value.

Table 17

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

Outlined on the following pages are the principal features of the Plan reflected in the 2008 valuation.

Definitions:

Creditable Service	Service credited as an employee of the City of Spokane during which contributions were made as an eligible member of the Retirement System up to a maximum of 35 years. The maximum is 30 years for employees hired prior to January 1, 2009 who terminate after January 1, 2009 and who do not elect the alternate benefit formula described below.
Compensation	Total amount received by an employee including base pay, shift differential, overtime, holiday pay, hazardous duty pay and out-of-classification pay and not reduced by salary reduction contributions to the City's cafeteria plan or Section 457 plan.
Final Compensation	The highest average annual Compensation received by a member during any two consecutive years of creditable service.
Normal Retirement Date	The first day of the month coinciding with or next following the attainment of age 62 and completion of 5 years of Creditable Service.
Early Retirement Date	The first day of the month coinciding with or next following the attainment of age 50 and with the sum of age plus Creditable Service greater than or equal to 75. Employees hired prior to January 1, 2009 who terminate after January 1, 2009 and who do not elect the alternate benefit formula described below may retire after attainment of age 50 with 5 years of Creditable Service.
Member Contributions	7.75% of Compensation is required to be paid by the members. These contributions are credited with 5% interest annually, compounded quarterly.

Table 17

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

Service Retirement Eligibility:

A member is eligible for normal retirement on his Normal Retirement Date. Early retirement is permitted at any time after attaining age 50 if the sum of age plus Creditable Service is greater than or equal to 75. Early retirement is permitted at any time after attaining age 50 with 5 years of Credited Service for employees hired prior to January 1, 2009 who terminate after January 1, 2009 and who do not elect the alternate benefit formula described below.

Service Retirement Allowance:

Upon service retirement, a member becomes eligible to receive an annual allowance, payable in equal monthly installments. The annual allowance is computed as follows:

<u>Normal Retirement Allowance under Alternate Benefit Formula</u>

Applies to all employees hired after January 1, 2009. Employees hired before January 1, 2009 who terminate after January 1, 2009 may elect this formula at retirement.

An amount equal to 2.00% of the member's Final Compensation, multiplied by the number of years of Creditable Service up to 35 years. The maximum annual benefit is 70.0% of Final Compensation.

<u>Normal Retirement Allowance under Benefit Formula in SMC 3.05.160</u>

Employees hired before January 1, 2009 who terminate after January 1, 2009 may elect this formula at retirement.

An amount equal to 2.15% of the member's Final Compensation, multiplied by the number of years of Creditable Service up to 30 years. The maximum annual benefit is 64.5% of Final Compensation.

Early Retirement Allowance

The Normal Retirement Allowance calculated using Creditable Service and Final Compensation as of the member's Early Retirement Date.

Disability Retirement Eligibility:

Permanent and total disability, as determined by the Board, prior to age 65 provided the member has at least 5 years of City service in the ten-year period prior to disability. The 5 year service requirement does not apply if the disability is due to accidental causes while engaged in City service.

Disability Retirement Allowance:

An amount equal to 1.25% of the member's Final Compensation, multiplied by the number of years of Creditable Service projected to age 62. The minimum annual benefit is $2,400 per year for "Duty Related" disability and $1,200 per year for "Non-duty Related" disability.

Table 17

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

Withdrawal Benefits:	If termination occurs after five years of service, a member is entitled to a retirement allowance commencing on his Early Retirement Date or later, up to his Normal Retirement Date, based on his years of Creditable Service and Final Compensation as of his termination date provided he has not withdrawn his Member Contributions.
Death Benefit Before Retirement:	**Not married or not completed 5 years of service** Beneficiary will receive a refund of the member's contributions with interest. **Married with 5 years of service** The surviving spouse of a member may elect to receive the survivor's portion of the benefit that would have been payable if the member had survived to his earliest retirement date and elected the 100% Joint & Survivor option in lieu of a refund of the member's contribution account.
Post-retirement Death:	An amount determined in accordance with the optional form of payment elected at retirement, but not less than the accumulated value of the member's contributions with interest less actual payments made.

Appendix - Data Tables

EXHIBIT A

Summary of Membership Data as of December 31, 2008

Active Members

Item	Male	Female	Total
Number of Members	950	542	1,492
Annual Salaries	$47,068,046	$23,923,979	$70,992,025
Average Age	47.6	47.9	47.7
Average Service	12.6	10.5	11.8

EXHIBIT A
(continued)

Summary of Membership Data as of December 31, 2008

Retirees and Beneficiaries

Item	Number	Annual Annuities	Average Annuities
Retired Members	900	$13,983,274	$15,537
Survivor Annuitants	108	$1,036,688	$9,599
Disabled Annuitants	11	$135,103	$12,282
Total Annuitants	1,019	$15,155,065	$14,872

EXHIBIT A
(continued)

Summary of Membership Data as of December 31, 2008

Vested Terminations and Portables

Item	Number	Annual Annuities	Average Annuities
Vested Terminations	68	$807,020	$11,868
Portables*	26	$145,561	$5,599

* Annuity amounts are estimates based on last known earnings projected to retirement. Actual annuity amounts will be calculated using actual earnings at retirement.

EXHIBIT B

20 Year Benefit Payment Projection

Spokane Employees' Retirement System

Year Ended December 31	Current and Future Retirees	Current Retirees Only
2009	$17,330,408	$15,033,290
2010	18,442,164	14,762,013
2011	19,538,333	14,478,786
2012	20,680,081	14,184,112
2013	21,779,022	13,874,246
2014	22,760,833	13,536,612
2015	23,615,219	13,177,845
2016	24,440,213	12,837,039
2017	25,144,377	12,486,832
2018	25,751,156	12,127,605
2019	26,223,620	11,748,358
2020	26,583,555	11,371,013
2021	26,842,557	10,985,637
2022	27,013,732	10,592,554
2023	27,048,874	10,183,344
2024	26,940,016	9,737,201
2025	26,793,045	9,321,163
2026	26,536,425	8,899,325
2027	26,183,319	8,472,388
2028	25,758,966	8,041,234

EXHIBIT C

Age and Service Distribution

Spokane Employees' Retirement System

Attained	Years of Creditable Service										
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	Total
Under 25	19	19	0	0	0	0	0	0	0	0	38
25 to 29	25	38	8	0	0	0	0	0	0	0	71
30 to 34	11	48	45	6	0	0	0	0	0	0	110
35 to 39	18	44	47	33	9	1	0	0	0	0	152
40 to 44	17	47	36	42	33	8	1	0	0	0	184
45 to 49	14	31	46	50	63	25	9	0	0	0	238
50 to 54	16	41	46	39	67	28	25	12	0	0	274
55 to 59	8	33	42	38	44	25	32	27	9	0	258
60 to 64	1	10	19	19	32	15	21	10	8	0	135
65 to 69	0	3	7	5	4	1	0	4	1	1	26
70 & Up	0	0	1	0	3	0	0	1	0	1	6
Total	129	314	297	232	255	103	88	54	18	2	1,492
Freq. Pct.	8.6%	21.0%	19.9%	15.5%	17.1%	6.9%	5.9%	3.6%	1.2%	0.1%	100.0%

EXHIBIT D

Age, Salary and Service Distribution

Spokane Employees' Retirement System

Attained Age	Years of Creditable Service: Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	Total
Under 25	226,137	446,232	0	0	0	0	0	0	0	0	672,369
25 to 29	392,778	1,289,102	204,017	0	0	0	0	0	0	0	1,885,897
30 to 34	224,028	2,210,128	2,240,967	208,980	0	0	0	0	0	0	4,884,103
35 to 39	370,402	1,771,747	2,606,376	1,613,997	204,628	0	0	0	0	0	6,567,149
40 to 44	354,643	2,139,312	2,066,005	2,086,226	1,785,184	425,249	52,667	0	0	0	8,909,285
45 to 49	194,936	1,602,952	2,063,735	2,574,154	3,050,343	1,069,382	371,595	0	0	0	10,927,098
50 to 54	380,438	1,942,168	2,456,853	2,241,659	3,541,311	1,713,653	1,252,738	550,481	0	0	14,079,300
55 to 59	260,383	1,372,291	2,244,390	1,766,349	2,185,091	1,491,589	1,886,601	1,482,971	483,852	0	13,173,517
60 to 64	12,126	446,693	1,135,712	1,129,828	1,871,778	751,584	1,291,740	898,350	300,123	0	7,837,934
65 to 69	0	175,421	347,076	256,367	418,995	101,874	0	202,016	217,506	0	1,719,256
70 & Up	0	0	50,053	0	113,949	0	0	73,205	0	98,908	336,115
Total	2,415,871	13,396,048	15,415,182	11,877,559	13,171,280	5,553,331	4,855,340	3,207,024	1,001,482	98,908	70,992,025
Freq. Pct.	3.4%	18.9%	21.7%	16.7%	18.6%	7.8%	6.8%	4.5%	1.4%	0.1%	100.0%
Avg. Sal.	18,728	42,663	51,903	51,196	51,652	53,916	55,174	59,389	55,638	49,454	47,582

EXHIBIT E

Average Benefits for Service Retirement

Spokane Employees' Retirement System

Attained	Male		Female		Total	
Age	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	0	0	0	0	0	0
50 to 54	38	18,320	28	15,175	66	16,986
55 to 59	90	18,521	51	14,432	141	17,042
60 to 64	105	20,278	62	12,210	167	17,283
65 to 69	98	19,305	63	12,096	161	16,484
70 to 74	89	17,754	47	12,106	136	15,802
75 to 79	53	14,625	25	11,091	78	13,492
80 to 84	44	13,566	21	13,158	65	13,434
85 to 89	37	11,278	23	9,574	60	10,624
90 to 94	11	9,413	11	7,495	22	8,454
95 & Up	3	4,887	1	6,292	4	5,238
Total	568	17,380	332	12,384	900	15,537
Average Age	68.4		67.9		68.2	
Freq. Pct.	63.1%		36.9%		100.0%	

EXHIBIT F

Average Benefits for Survivor Beneficiary

Spokane Employees' Retirement System

Attained	Male		Female		Total	
Age	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	0	0	0	0	0	0
50 to 54	0	0	5	12,607	5	12,607
55 to 59	0	0	4	8,284	4	8,284
60 to 64	0	0	5	11,729	5	11,729
65 to 69	0	0	11	11,259	11	11,259
70 to 74	3	6,973	14	12,444	17	11,478
75 to 79	1	10,403	20	10,339	21	10,342
80 to 84	0	0	17	7,928	17	7,928
85 to 89	0	0	9	9,154	9	9,154
90 to 94	1	8,765	12	6,898	13	7,042
95 & Up	0	0	6	6,166	6	6,166
Total	5	8,018	103	9,676	108	9,599
Average Age	77.6		77.1		77.1	
Freq. Pct.	4.6%		95.4%		100.0%	

EXHIBIT G

Average Benefits for Disability Retirement

Spokane Employees' Retirement System

Attained	Male		Female		Total	
Age	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	0	0	0	0	0	0
50 to 54	3	14,293	1	16,035	4	14,729
55 to 59	0	0	2	9,296	2	9,296
60 to 64	2	15,498	1	12,898	3	14,631
65 to 69	1	5,873	0	0	1	5,873
70 to 74	0	0	0	0	0	0
75 to 79	1	7,828	0	0	1	7,828
80 to 84	0	0	0	0	0	0
85 to 89	0	0	0	0	0	0
90 to 94	0	0	0	0	0	0
95 & Up	0	0	0	0	0	0
Total	7	12,511	4	11,881	11	12,282
Average Age	60.7		57.0		59.4	
Freq. Pct.	63.6%		36.4%		100.0%	

EXHIBIT H

Average Benefits for Vested Terminations

Spokane Employees' Retirement System

Attained	Male		Female		Total	
Age	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 30	0	0	0	0	0	0
30 to 34	1	10,085	3	7,247	4	7,956
35 to 39	6	7,220	2	6,717	8	7,094
40 to 44	11	14,119	5	9,276	16	12,606
45 to 49	18	15,421	14	12,236	32	14,028
50 to 54	3	7,680	5	8,966	8	8,483
55 to 59	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0
65 & Up	0	0	0	0	0	0
Total	39	13,060	29	10,265	68	11,868
Average Age	44.3		44.6		44.4	
Freq. Pct.	57.4%		42.6%		100.0%	

EXHIBIT I

Average Benefits for Portables

Spokane Employees' Retirement System

Attained	Male		Female		Total	
Age	Number	Avg. Ben.*	Number	Avg. Ben.*	Number	Avg. Ben.*
Under 30	1	1,422	0	0	1	1,422
30 to 34	1	5,087	1	1,754	2	3,421
35 to 39	2	4,745	1	3,664	3	4,385
40 to 44	3	1,105	1	6,169	4	2,371
45 to 49	3	8,631	2	12,547	5	10,198
50 to 54	1	8,229	1	50	2	4,140
55 to 59	2	1,870	3	6,164	5	4,446
60 to 64	1	4,421	2	13,746	3	10,638
65 & Up	1	1,249	0	0	1	1,249
Total	15	4,190	11	7,520	26	5,598
Average Age	46.0		50.7		48.0	
Freq. Pct.	57.7%		42.3%		100.0%	

* Annuity amounts are estimates based on last known earnings projected to retirement. Actual annuity amounts will be calculated using actual earnings at retirement.

Statistical Section

Sunrise over Mayo Cove
Lakebay, WA
Photography by Leo Griffin

Schedule of Revenues by Source

Fiscal Year	*Employer Contribution*	*Employer Contributions*	*Member Contributions*	*Net Investment Income*	*Total Revenues*
1996	6.72%	$3,153,824	$3,153,849	$12,001,154	$18,308,827
1997	6.72%	3,255,914	3,255,940	17,724,510	24,236,364
1998	6.72%	3,514,958	3,525,057	15,109,664	22,149,679
1999	6.72%	3,643,468	3,655,819	18,454,642	25,753,929
2000	6.72%	3,715,600	3,715,600	10,470,991	17,902,191
2001	6.72%	3,894,757	3,895,131	(1,820,109)	5,969,779
2002	6.72%	3,919,254	3,919,254	(16,687,140)	(8,848,632)
2003	6.72%	4,017,431	4,029,561	28,862,507	36,909,499
2004	6.72%	4,095,810	4,152,843	17,530,588	25,779,241
2005	6.72%	4,148,874	4,154,743	11,985,450	20,289,067
2006	6.72%	4,287,457	4,336,560	21,140,066	29,764,083
2007	6.72%	4,518,363	4,518,363	16,715,588	25,752,314
2008	6.72%	4,875,443	4,882,622	(59,972,361)	(50,214,296)

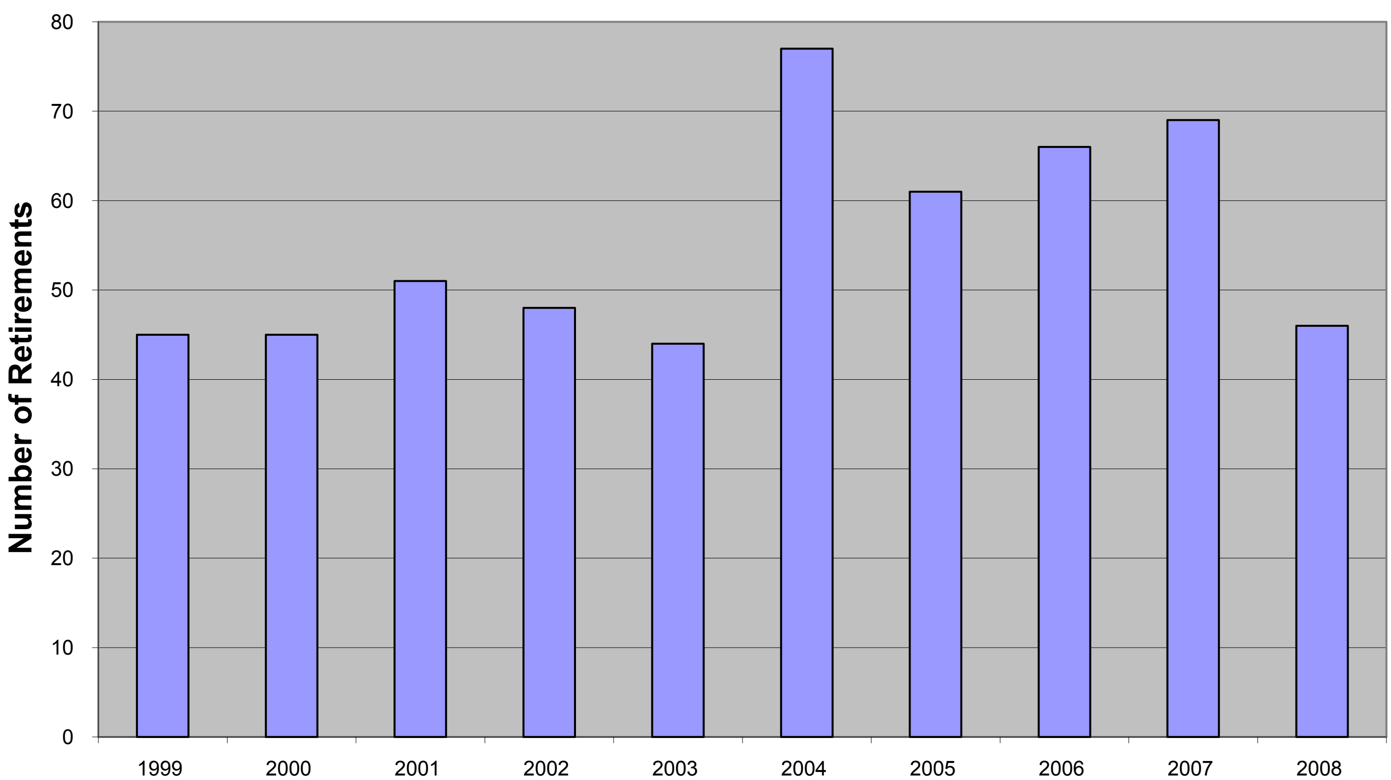
Schedule of Expenses by Type

Fiscal Year	*Benefits*	*Refunds*	*Net Administrative*	*Total Expenses*
1996	$6,590,519	$440,926	$345,004	$7,376,449
1997	7,001,401	354,289	355,400	7,711,090
1998	7,327,482	547,031	352,272	8,226,785
1999	7,779,528	502,764	375,385	8,657,677
2000	8,704,644	520,973	429,178	9,654,795
2001	9,371,697	480,050	399,918	10,251,665
2002	10,042,276	488,945	410,833	10,942,054
2003	10,599,607	461,226	485,370	11,546,203
2004	11,109,084	576,433	494,831	12,180,348
2005	12,404,497	605,600	457,798	13,467,895
2006	13,322,042	492,193	412,824	14,227,059
2007	14,253,955	717,005	448,654	15,419,614
2008	15,002,061	370,947	581,294	15,954,302

Schedule of Benefit Expenses by Type

Year	*Service Retiree Benefits*	*Survivor Benefits*	*Disability Retiree Benefits*	*Refunds*	*Total*
1996	$5,845,673	$637,876	$106,970	$440,926	$7,031,445
1997	6,205,060	685,793	110,548	354,289	7,355,690
1998	6,495,974	711,738	119,770	547,031	7,874,513
1999	6,921,021	713,185	145,322	502,764	8,282,292
2000	7,811,737	744,106	148,801	520,973	9,225,617
2001	8,395,024	823,870	152,803	480,050	9,851,747
2002	9,047,124	849,399	145,753	488,945	10,531,221
2003	9,557,946	899,312	142,349	461,226	11,060,833
2004	10,058,421	900,169	150,494	576,433	11,685,517
2005	11,313,520	942,622	148,355	605,600	13,010,097
2006	12,189,473	988,579	143,990	492,193	13,814,235
2007	13,115,104	994,861	143,990	717,005	14,970,960
2008	13,835,194	1,030,774	136,093	370,947	15,373,008

Retirements by Year



Retirements During 2008

Service Retirements

	Name	Department	Position	Date Retired	Option	Yrs Serv	Age
1	Cecilia D Farstad	Street	Clerk II	01/08/08	A	8.4	56
2	Dennis R Williams	Solid Waste Management	Refuse Collector I	01/08/08	D	37.7	62
3	Lyle R Halliday	Street	Street Maintenance Operator II	01/26/08	E	40.1	63
4	Barbara J Garces-Heier	Sewer Maintenance	Clerk II	02/02/08	ST	7.1	60
5	Brian W Smead	* Police	Police Records Specialist	02/03/08	E	18.4	50
6	Michael D Stone	Parks & Recreation	Director	02/08/08	E	25.9	54
7	Alexandria S Bryant	Police	Storekeeper	02/09/08	E	18.5	62
8	Jonathan S Lyle	Retirement	Accountant II	02/15/08	ST	18.7	55
9	Loran A Thompson	Sewer Maintenance	Laborer II	02/16/08	ST	7.8	62
10	Richard L Johnson	Engineering Services	Public Works Lead Inspector	02/23/08	E	20.1	64
11	Ruth A Harms	# Library	Library Assistant II	03/01/08	ST	8.8	65
12	Christy Tyson	# Library	Librarian III	03/01/08	ST	8.5	60
13	William F Losh, Jr	Engineering Services	PW Journey Level Inspector	03/08/08	E	23.9	64
14	Joyce E Huff	* Legal	Legal Assistant	03/25/08	D	9.0	50
15	Cynthia L Peters	# Municipal Court	Clerk Typist I	03/25/08	A	0.7	55
16	Karen L McCord	Treasurer	Cash Accounting Clerk I	04/03/08	E	11.0	51
17	Richard A Bell	Parks & Recreation	Park Equipment Specialist	04/05/08	ST	11.9	56
18	Steven M Coon	Water	Water Service Foreperson	04/05/08	ST	28.7	51
19	Richard W Siegel	AWWTP	WWTP Operations Supervisor	04/05/08	ST	10.7	53
20	Sheryl L Coon	* Water	Clerk IV	04/09/08	ST	19.2	50
21	Bohdon Sobczuk	Sewer Maintenance	Laborer II	04/12/08	ST	5.2	59
22	Donald R Preston	Street	Parking Meter Specialist I	04/13/08	ST	11.4	62
23	Richard J Charbonneau	Water	Laborer II	05/03/08	E	7.7	65
24	Barry C Sattin	AWWTP	Laboratory Technician	05/03/08	ST	20.6	52
25	Brian C Snipes	Water	Water Service Foreperson	05/03/08	E	30.9	57
26	Pamela A Stanley	Police	Police Records Specialist	05/03/08	ST	14.2	58
27	Wayne K Shaw	* Street	Street Maintenance Operator I	05/29/08	C-5	5.5	50
28	Norbert P Urbat	Parks & Recreation	Craft Specialist	06/03/08	ST	12.0	57
29	Carol C Whitehouse	Legal	Clerk II	06/07/08	E	15.7	53
30	Laura M Roberson	Accounting	Payroll Supervisor	06/14/08	ST	27.8	53
31	Nanette D Cromwell	* Library	Library Page II	06/21/08	C-5	12.6	50
32	Terry P Fletcher	AWWTP	WWTP Operator I	07/06/08	E	28.4	50
33	Leonard J J Ward	Police	Police Records Shift Supervisor	07/08/08	ST	21.1	56
34	Lawrence L McNutt	Street	Street Maintenance Operator II	07/09/08	D	17.7	51
35	Joseph M Holland	Street	Street Maintenance Foreperson	07/12/08	ST	28.1	53
36	Neorla F Howell	* Police	Accountant II	07/14/08	E	13.4	50
37	Gary W Parkison	Water	Laborer II	07/19/08	E	20.1	62
38	Darrel C Klein	Street	Street Maintenance Operator II	08/05/08	B	23.5	61
39	Roger A Sothen	Fire	Information Analyst	08/09/08	E	18.3	65
40	Richard J Fogal	Sewer Maintenance	Waste Water Inspector	09/03/08	D	29.2	57
41	Larry G Borhauer	Building Services	Certified Elevator Inspector	09/06/08	B	24.3	65
42	Maureen Kenney	Solid Waste Management	Refuse Collector II	10/04/08	ST	20.2	56
43	David A Brizius	Street	Street Maintenance Operator I	11/04/08	E	13.5	59
44	Dan P Evans	AWWTP	Senior WWTP Maint. Mechanic	12/02/08	E	32.4	57
45	Susan A Ashe	Mayor	Director of Legis/Public Affairs	12/16/08	D	5.8	58
46	Lorena L Starke	Sewer Maintenance	Clerk II (LO)	12/16/08	C-10	11.5	52

* Retired as vested employee
\# Retired under membership through Portability

Deaths During 2008

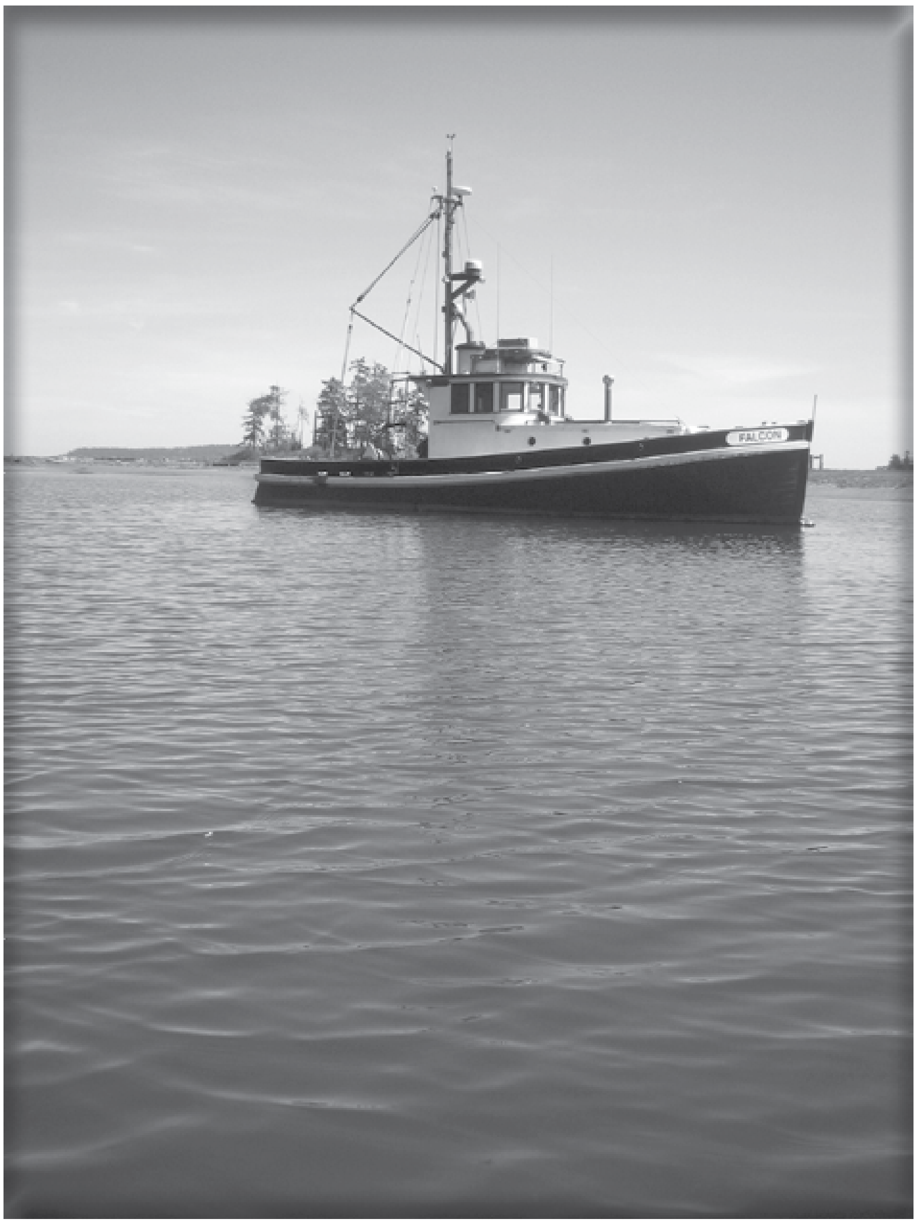
Retiree Deaths

	Name	Date Retired	Date of Death	Age	Retirement Option
1	Loralee Knuth	01/29/83	01/09/08	81	Disability
2	Leonard McPhee	11/14/81	01/17/08	97	A
3	Jeanette Cromie	01/07/83	01/23/08	84	A
4	Helen Morris	02/13/72	02/15/08	93	A
5	Alan Van Curler	07/30/80	02/19/08	75	Disability
6	Peter Gross	09/05/90	03/08/08	80	ST
7	Kirk Torry	10/26/76	03/13/08	93	A
8	Marion Kerr	01/01/87	03/16/08	81	A
9	Robert Mielke	07/05/83	03/17/08	89	D
10	Juanita Boures	06/02/01	04/14/08	76	ST
11	Donald Soehren	06/14/97	05/01/08	71	D
12	Kenneth Johns	10/05/96	05/16/08	79	ST
13	Mildred Schock	04/20/88	05/28/08	79	ST
14	Joyce Sutton	09/07/96	06/03/08	75	ST
15	Burton Smith	07/21/82	06/18/08	82	A
16	Betty Beasley	03/10/95	07/01/08	79	A
17	Ira Brock	02/25/95	07/02/08	67	ST
18	Glen Bjordal	07/06/90	07/13/08	80	ST
19	Thelma Back	07/03/75	07/16/08	91	A
20	Robert Potvin	02/21/87	08/07/08	72	C-15
21	Wilford Schatz	08/04/79	08/17/08	93	E
22	Gilbert Allen	02/21/87	09/12/08	84	A
23	Charles Huggins	05/05/84	09/22/08	78	ST
24	Margaret Brengle	09/02/87	09/28/08	91	ST
25	Frances Raymond	07/06/96	10/05/08	71	E
26	Joseph Shine	03/21/87	11/03/08	85	A
27	Phyllis Slater	06/06/98	11/05/08	72	ST
28	Robert Whicker	07/04/87	11/16/08	82	A
29	Emmett Egbert	04/28/84	12/17/08	89	A

Active Member Deaths

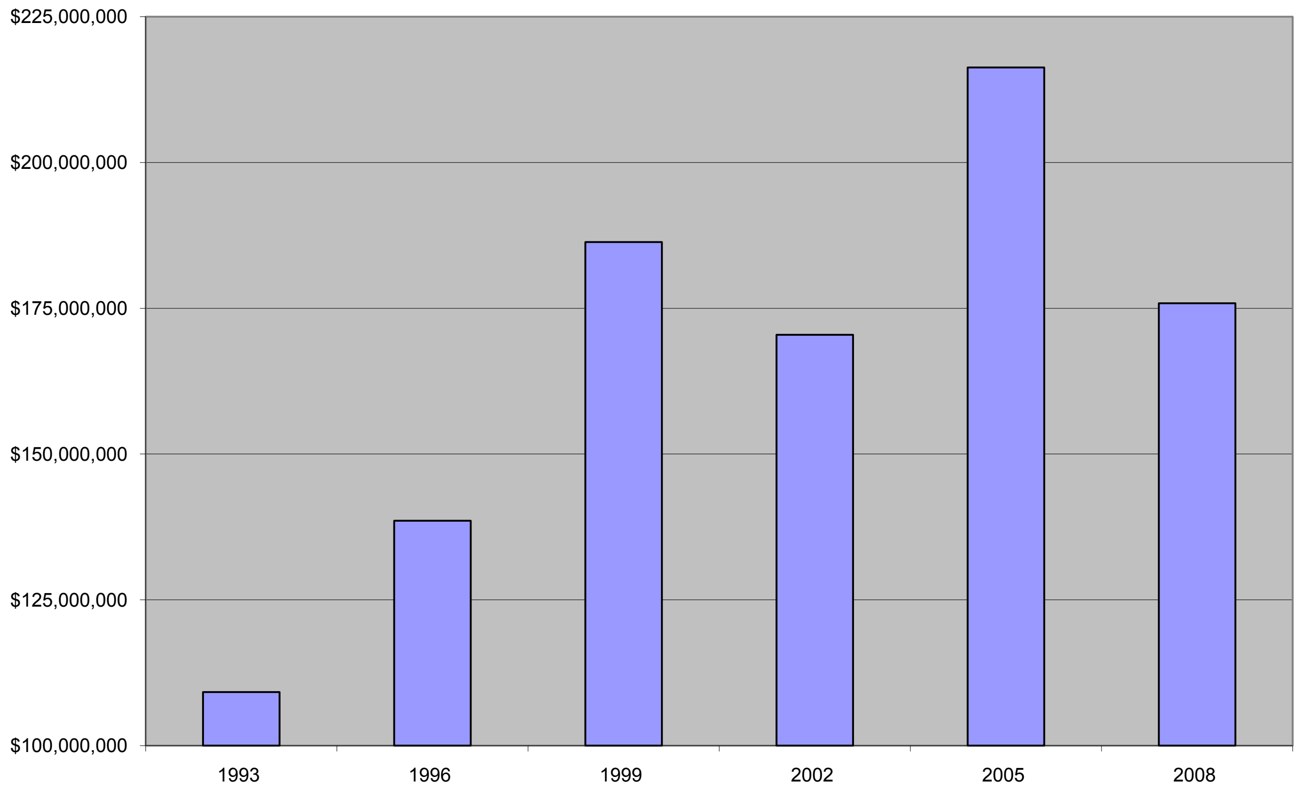
Name	Department	Date of Death	Age	Years of Service
Billy Morris	Administrative Services	06/23/08	55	12.5

Investment Section



The Falcon
Lakebay, WA
Photography by Leo Griffin

Total Retirement Assets

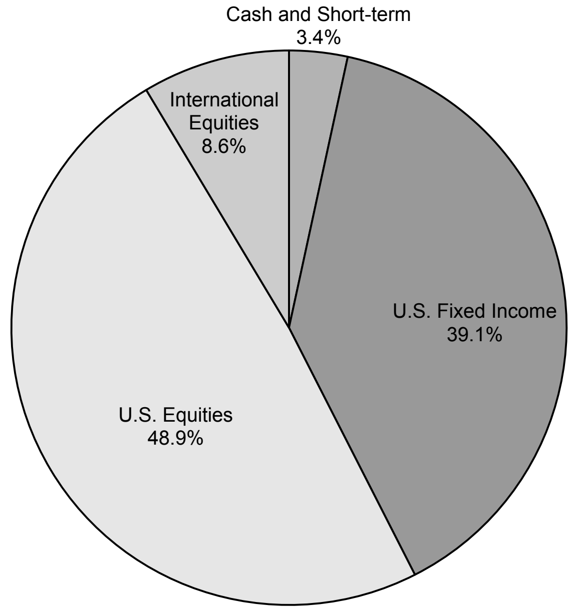


Schedule of Investment Results

	Market Value of Investments	Net Investment Income	Investment Rate of Return
1999	$ 185,199,371	$ 18,454,642	11.28%
2000	193,346,778	10,470,991	5.90%
2001	189,123,034	(1,820,109)	-0.70%
2002	169,398,533	(16,687,140)	-8.60%
2003	194,831,995	28,862,507	17.10%
2004	209,431,314	17,530,588	9.50%
2005	216,277,686	11,985,450	6.30%
2006	231,815,276	21,140,066	10.50%
2007	242,213,605	16,715,588	7.77%
2008	175,878,430	(59,972,361)	-24.68%

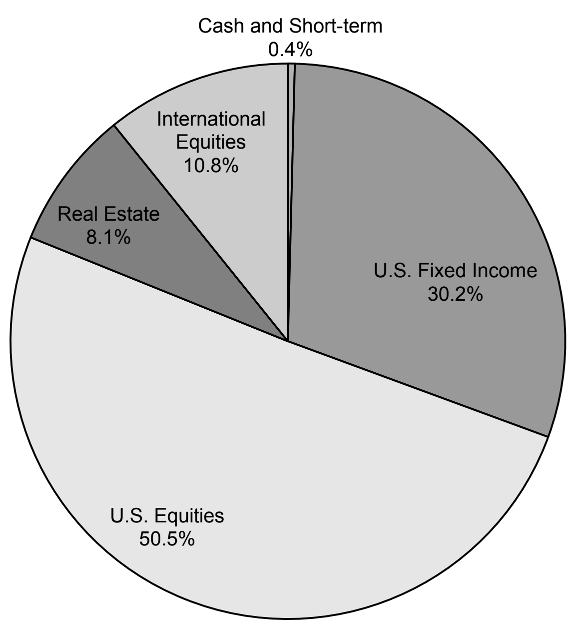
The Evolution of SERS Investment Asset Allocation

2004 Year-End Asset Allocation



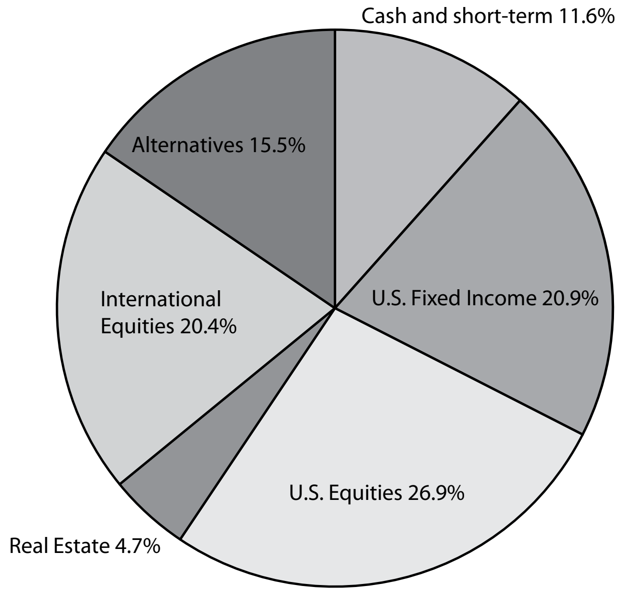
Traditional 60/40 portfolio with an allocation to international equities

2006 Year-End Asset Allocation



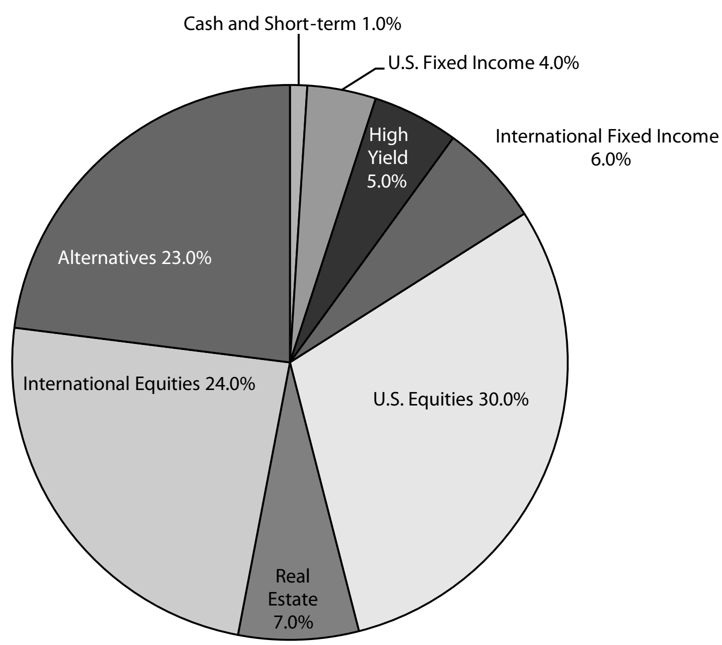
Equity exposure grew with overall market increase; real estate assets added; fixed income reduced as internally managed bond portfolio is phased out.

2008 Year-End Asset Allocation



Major shift in asset allocation to better manage risk; alternative assets added; cash position strengthened during rebalancing and market turmoil

Target Asset Allocation

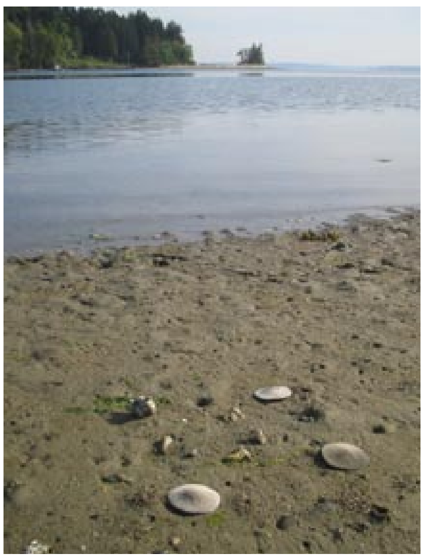


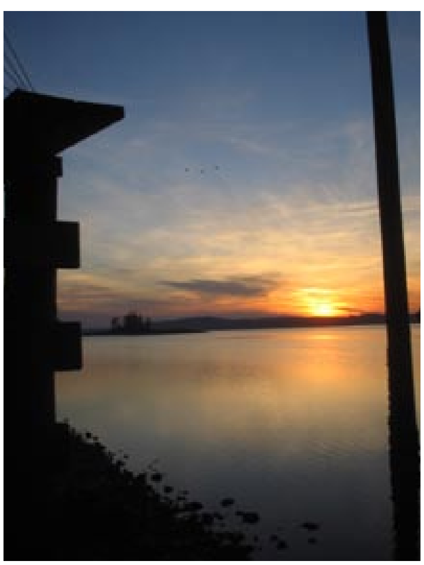
SERS continues to manage the overall allocation towards the policy targets. Due to the complexity of certian asset classes and the unpredictability of the financial markets, it is expected to take years to reach target levels.

Investments Listed by Type

As of December 31, 2008

	Market Value
Cash and Cash Equivalents:	
Cash Held by Treasurer	$136,650
Bank of New York	20,335,174
Fixed Income Investments:	
In-House Managed	2,764,623
Sterling Capital Management LLC	34,188,875
Equities Investments:	
Hotchkis & Wiley Core Value Fund	7,875,238
Santa Barbara Asset Management LLC	6,582,232
Victory Capital Management	8,618,157
Vanguard Institutional Index	8,572,949
Sterling Capital Management LLC	2,910,904
Rainier Midcap Equity Fund	2,208,846
iShare Russell Midcap Index	2,630,915
Champlain Small Cap Fund LLC	2,099,286
Westwood Small Cap Value Fund	2,013,095
Essex Small Micro Cap Growth Fund	1,785,328
iShare Russell 2000 Index	2,228,730
International Investments:	
Berens Global Value Fund	5,973,609
Forward International Equity Fund	4,991,466
MSCI ACWI-ex US SPDR	6,342,142
Euro Pacific Growth Fund	6,490,165
Artisan International Value	7,125,132
Epoch International Small Cap Inst Fund	5,031,539
Real Estate Investments:	
Legacy Partners Realty Fund III	264,490
Metropolitan Real Estate Partners	531,967
Principal Real Estate Investors LLC	6,648,950
Alternative Investments:	
Arden Strategic Offshore	9,289,159
Common Sense Offshore	10,800,074
Landmark Value Strategies	2,421,281
Weatherlow Offshore	5,017,454
Total Cash and Investments	$175,878,430





Spokane Employees' Retirement System

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